China unicom 中国联通

CHINA UNICOM (HONG KONG) LIMITED

Incorporated in Hong Kong with limited liability

Stock Code: 0762

A NEW JOURNEY

Annual Report 2014

CONTENTS

FINANCIAL SECTIONS

COMPANY PROFILE

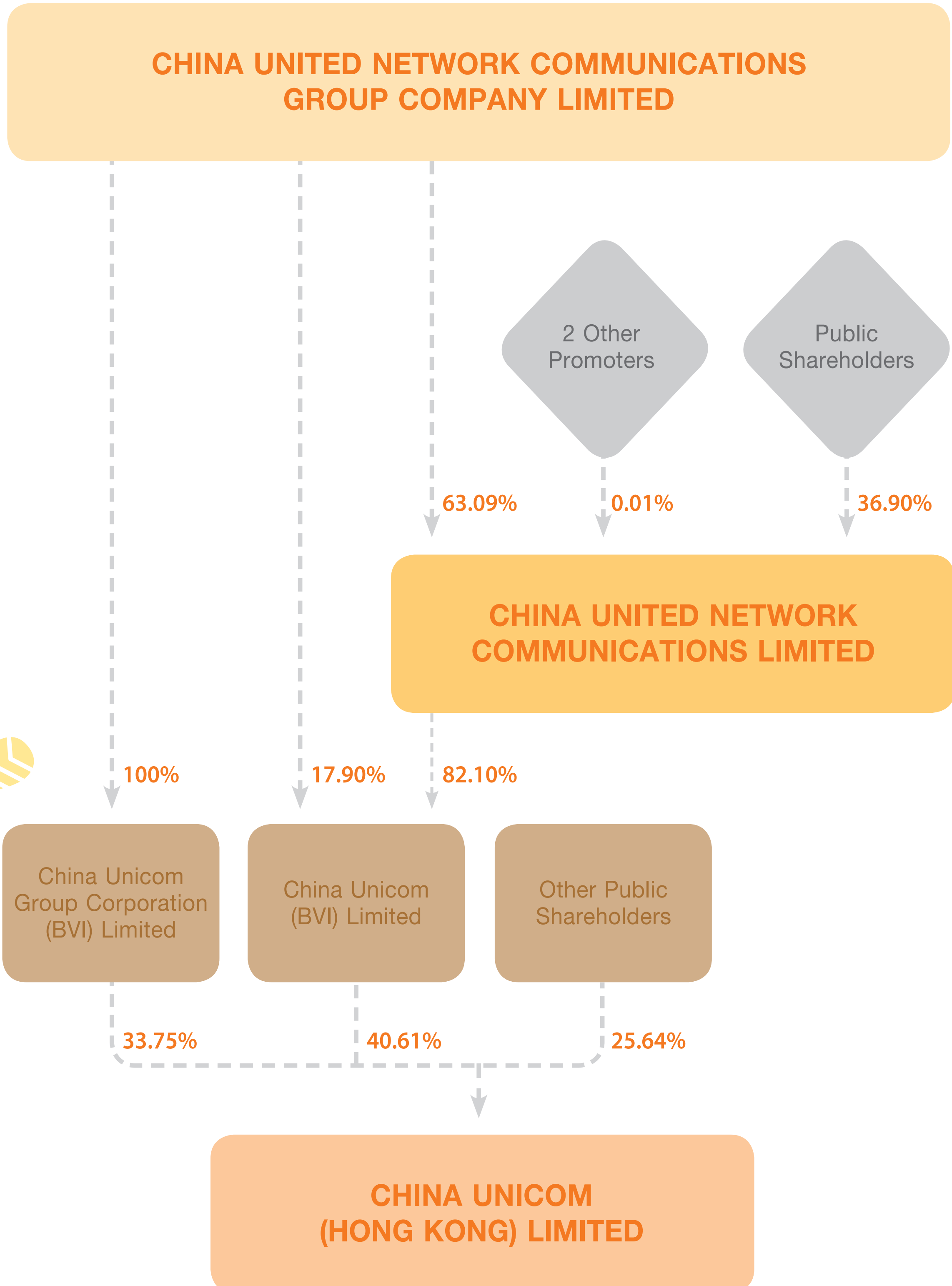
China Unicom (Hong Kong) Limited (the "Company") was incorporated in Hong Kong in February 2000 and was listed on the New York Stock Exchange and the Stock Exchange of Hong Kong on 21 June 2000 and 22 June 2000 respectively. On 1 June 2001, the Company was included as a constituent stock of the Hang 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 2015, Unicom Group held 62.06% 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 12.30% of the shares in the Company through A Share Company's shareholding in China Unicom (BVI) Limited. The remaining 25.64% of the shares in the Company are held by public investors at The Stock Exchange of Hong Kong Limited and New York Stock Exchange.

At present, the Company provides a full range of telecommunications services in China, including mobile broadband (WCDMA, LTE FDD, TD-LTE), fixed-line broadband, GSM, fixed-line local access, ICT, data communications and other related value-added services. As at the end of January 2015, the total subscribers of the Company's mobile, fixed-line broadband and local access businesses reached 450 million.

SHAREHOLDING STRUCTURE



(Updated on 28 February 2015)

2014 PERFORMANCE HIGHLIGHTS

Service Revenue

RMB 244.88 BILLION

↑ 2.6%

Service Revenue Growth Exceeding Industry Average by

3.9pp

EBITDA

RMB 92.77 BILLION

↑ 10.5%

EBITDA Margin

37.9%

↑ 2.7pp

Net Profit

RMB 12.06 BILLION

↑ 15.8%

Mobile Broadband Subs as % of Mobile Subs

49.9%

↑ 6.3pp

Non-Voice's Share of Service Revenue

61.9%

↑ 5.7pp

Mobile & Fixed-line Broadbands' Share of Service Revenue

63.7%

↑ 6.8pp

KEY FINANCIAL RESULTS	2014	2013
Operating Revenue (RMB in billions)	**284.68**	295.04
Service Revenue (RMB in billions) (Note 1)	**244.88**	238.57
Of which: Mobile business	**155.10**	151.13
Fixed-line business	**88.48**	86.49
EBITDA (RMB in billions) (Note 2)	**92.77**	83.96
EBITDA as % of service revenue	**37.9%**	35.2%
Net Profit (RMB in billions)	**12.06**	10.41
Basic Earnings per Share (RMB)	**0.505**	0.440
Dividend per Share (RMB)	**0.20**	0.16

KEY OPERATING METRICS	2014	2013
Mobile Subscribers (millions)	**299.098**	280.983
Mobile ARPU (RMB)	**44.1**	48.2
Mobile broadband subscribers (millions) (Note 3)	**149.105**	122.600
Mobile broadband ARPU (RMB) (Note 3)	**63.6**	75.1
Fixed-line Broadband Subscribers (millions)	**68.790**	64.647
Fixed-line Local Access Subscribers (millions)	**82.056**	87.643

Note 1: Due to the existence of unallocated items, service revenue is not equal to the sum of service revenue from mobile business and fixed-line business.

Note 2: 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 the Group.

Note 3: Mobile broadband business includes both 3G and 4G businesses.

MAJOR EVENTS 2014

FEBRUARY

25 February China Unicom signed the strategic cooperation agreement with Shanghai City.

MARCH

18 March China Unicom launched cBSS system, 4G tariff packages and multiple 4G terminals.

APRIL

12 April China Unicom was named the "Top-rank Service Provider for SMEs in China" for the two consecutive years by Chinese SME Service Innovation Summit.

29 April China Unicom Innovation Investment Company Limited was established.

29 April Ministry of Finance and State Administration of Taxation jointly issued a notice regarding the replacement of business tax with value-added tax for the telecommunications industry from 1 June 2014.

JUNE

China Unicom started to reduce selling and marketing expenses and further pushed forward the transformation.

JUNE

27 June MIIT approved China Unicom to conduct the TD-LTE/LTE FDD hybrid network trial in 16 cities.

JULY

11 JULY China Unicom, together with China Mobile and China Telecom joined to establish China Communications Facilities Services Corporation Limited (later changed to China Tower Company Limited).

AUGUST

4 AUGUST China Unicom signed the strategic cooperation agreement with China Life.

AUGUST

28 AUGUST MIIT approved China Unicom to expand the TD-LTE/LTE FDD hybrid network trial to 40 cities.

SEPTEMBER

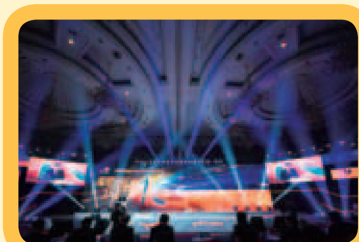
3 September China Unicom and China Merchants Bank jointly announced the establishment of CMB-Unicom Consumer Financing Company Limited with the registered capital of RMB2 billion.

SEPTEMBER

18 September China Unicom signed the strategic cooperation agreement with PICC.

OCTOBER

14 October Nationwide full launch of B2B e-commerce platform "Woego", the first of its kind in Chinese telecommunications industry.



NOVEMBER

5 November China Unicom held 4G Smartphone Supply Chain Summit in Chengdu.

NOVEMBER

30 November China Unicom signed the strategic cooperation agreement with Jiangsu Province on the construction of "Smart Jiangsu".

DECEMBER

17 December MIIT approved China Unicom to expand the TD-LTE/LTE FDD hybrid network trial to 56 cities.

DECEMBER

23 December Wostore Technology Company Limited was established.

CHAIRMAN'S STATEMENT

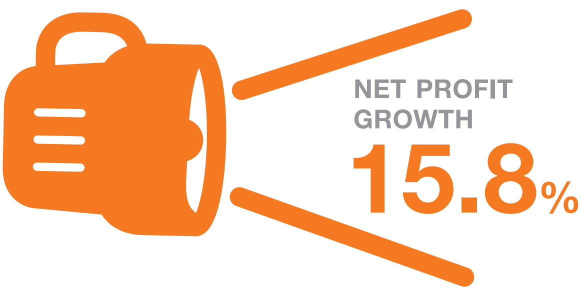
CHANG XIAOBING
Chairman & CEO

DEAR SHAREHOLDERS,

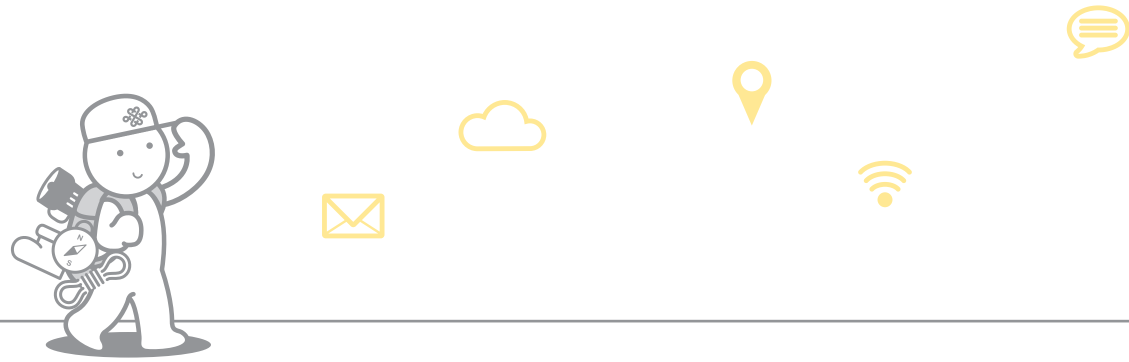
First at all, on behalf of the Board of China Unicom, I would like to express my sincere gratitude to the shareholders and the different parts of the society for their support. In 2014, the regulatory policies and market environment within the Chinese telecommunications industry underwent considerable changes. Due to various factors such as the issue of 4G license and the replacement of business tax with value-added tax (the "VAT Reform"), the competitive landscape turned more complex and the industry revenue growth slowed down. With these changes and challenges, the Company followed its strategy of "Leading Mobile Broadband and Innovating Operational Integration", proactively accelerated the transformation, and pushed forward the reform in key areas. As a result, the Company achieved continuous improvement in its revenue market share, revenue structure and profitability.

OVERALL RESULTS

In 2014, the Chinese telecommunications industry fully implemented the VAT Reform. Leveraging on the VAT Reform, the Company deepened the transformation of its operational model, and improved its business structure as well as the quality of its business development. During the year, the Company's service revenue reached RMB244.88 billion, an increase of 2.6% compared with the previous year, outpacing the industry average[1] by 3.9 percentage points. Revenues generated from mobile business and non-voice business accounted for 63.3% and 61.9% of its total service revenue respectively.



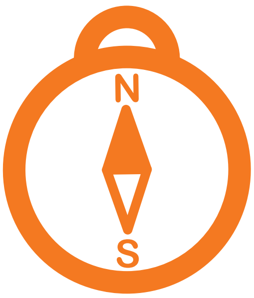
Due to the industry changes and its own transformation, the Company's revenue growth slowed down, but its utilisation efficiency of resources was considerably improved, resulting in the continuous improvement in its profitability. During the year, the Company's EBITDA reached RMB92.77 billion, up by 10.5% year-on-year. EBITDA as a percentage of service revenue reached 37.9%, up by 2.7 percentage points year-on-year. Net profit increased by 15.8% year-on-year to RMB12.06



billion. The Company's financial status became more solid, with operating cash flow up by 12.2% year-on-year and free cash flow at RMB3.21 billion.

Based on the Company's overall financial position in 2014 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 RMB0.20 per share for the fiscal year ended 31 December 2014.

FINAL DIVIDEND
RMB0.20



BUSINESS DEVELOPMENT

Promoting the transformation of its mobile business model, consolidating and enhancing the differentiated competitive advantages. In 2014, leveraging on its leading position in terms of network, business and service in the 3G market, the Company accelerated the construction of its 4G network, optimised the resource allocation and adjusted its business development model, so as to proactively build the new differentiated competitive advantages. The Company pushed forward the value creation from its existing customers, established the specific and professional customer retention system, and enhanced the utilisation efficiency of its sales and marketing resources such as handset subsidy, distribution commission and advertising fee. The Company implemented its "Dual 4G, Dual 100 MB Speed" strategy to enhance the advantage of its terminal supply and the effectiveness of its terminals to drive business and product development. By catering to the changes in the mobile Internet market and customer needs and leveraging on the launch of its centralised business support system (cBSS), the Company further pushed forward the centralised operation as well as the unified operation in products and services, system support and customer service, and established a newly structured and unified product portfolio which covers all businesses and all customer segments. The Company promoted the integrated on-line and off-line operations, carried out professional management at its sales outlets, and improved the sales capability of its self-owned distribution channels. Through the Internet-oriented and nationwide-run B2B platform "Woego", the Company established an efficient and transparent end-to-end operational support system along the whole value chain of terminals, businesses and channels. In 2014, the Company's mobile service revenue increased by 2.6% year-on-year to RMB155.10 billion and its mobile subscribers grew by 18.115 million to approximately 300 million. The revenue and user structures of its mobile business were further optimised, with mobile broadband[2] service accounting for 68.2% of its total mobile service revenue and mobile broadband[2] subscribers accounting for 49.9% of its total mobile subscribers. With saturating mobile voice business and rapidly growing mobile data business, the Company proactively promoted data volume operation and innovative applications so as to boost data volume and value. The data usage of the Company's handset subscribers grew by 61.1% year-on-year.

DATA USAGE BY HANDSET SUBSCRIBERS GREW BY
61.1%

The Company explored the open co-operation with Internet companies, and promoted the development and operation of its WO+ Platform. The Company proactively pushed forward the mobile service resale trial, and provided the flexible and convenient support to its resellers through an innovative co-operation model in which one-stop access activates unified operations and centralised services, resulting in an industry-leading position in the mobile service resale business.

Accelerating the upgrade and speed-up of its fixed-line broadband network to drive the steady growth of its fixed-line business. In 2014, the regulatory changes intensified the competition in the fixed-line broadband market. The Company fully leveraged on its advantages in network and service, accelerated the upgrade and speed-up of its fixed-line broadband network, pushed forward the establishment of a professional operational system, proactively developed the bundled product portfolio for its family customers, and boosted its efforts in customer retention, so as to ensure the steady growth of its fixed-line business. In 2014, the Company's fixed-line broadband service revenue increased by 9.2% year-on-year to RMB50.20 billion, and its fixed-line broadband subscribers increased by 6.4% year-on-year to 68.79 million. Driven by its fixed-line broadband business, the full-year fixed-line service revenue increased by 2.3% year-on-year to RMB88.48 billion, of which 56.7% was from its fixed-line broadband business, resulting in a further optimised fixed-line business structure.

Accelerating the strategic deployment in innovative businesses and maintaining the rapid development in industry applications. In 2014, the Company focused on key areas such as IDC, cloud computing, ICT and the Internet of Things, accelerated the technological and strategic deployment, fully improved the capability of its professional operation and cultivated the new growth drivers. Meanwhile, the Company continued to leverage on its leading advantages in key industry applications such as education informatisation, auto informatisation and smart city, and enhanced its development capabilities for total solutions to drive the market penetration of its applications. During the year, its key industry application users increased by 20.02 million to 59.29 million. The Company proactively explored the market-oriented reform in its emerging business units. The Company set up Unicom Innovation Investment Company Limited and CMB-Unicom Consumer Financing Company Limited, and tried to operate its apps store in a corporate manner, so as to expand and strengthen cross-industry co-operation and to boost its business development with a market-oriented mechanism.

NEWLY ADDED INDUSTRY APPLICATIONS USERS

20.02 MILLION

NETWORK CAPABILITIES

In 2014, the Company further accelerated the construction of its mobile and fixed-line broadband networks with an aim to build the high-quality broadband networks with leading user experience. The Company leveraged on the advantages in its 3G network coverage and 3G supply chain, proactively carried out the LTE hybrid network trials, continued to expand the broad coverage of its networks, and optimised the in-depth coverage of its networks. During the year, the Company built 158 thousand mobile broadband base stations, and the number of total mobile broadband base stations reached 565 thousand. The Company accelerated the construction and upgrade of its fiber optic broadband network, and the number of its broadband access ports increased by 13.4% year-on-year, of which 77.8% are FTTX. The Company accelerated the expansion of its network load-carrying capability. By adding 7 national Internet backbone nodes, the Company further increased its Internet bandwidth. The Company's overall network capabilities were further enhanced.

NEWLY ADDED MOBILE BROADBAND BASE STATIONS
158 THOUSAND

MANAGEMENT REFORM

In 2014, following the mobile Internet trends, the Company further deepened the management reform in key areas so as to improve its operational efficiency, quality of development and corporate vitality. The Company continued to deepen the reform on investment management, established the transparent and dynamic mechanism of resource allocation that leans to local business units, and further optimised its evaluation and incentive schemes, so as to boost overall corporate vitality. The Company strengthened the resource management and internal control risk management, and made its corporate management more standardised and scientific. The Company further promoted the centralised operation, and accelerated the establishment of an efficient and customer-oriented operational system.

SOCIAL RESPONSIBILITY

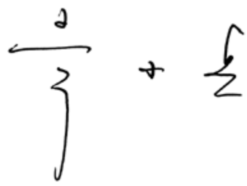
Committed to integrating its business development with its social responsibility, the Company has been dedicated to contributing to the country's informatisation progress, the transformation and upgrade of traditional industries and the social well-being, and has strived to create value for its stakeholders. The Company promoted energy saving and emission reduction as well as joint construction and co-sharing of telecommunications infrastructure, ensured quality and secure telecommunications and information services, and built reliable and safe green networks. The Company enhanced its service capability and expanded its distribution channels to rural areas in order to eliminate digital divide and to ensure different groups to enjoy the convenience of digital life. Always putting its employees first, the Company strived to create the best platform for its employees' work, life and career development. The Company committed itself to public welfare, and made various contributions to the society by carrying on poverty relief efforts as well as making donations for education.

OUTLOOK

With the issue of LTE FDD license and the further implementation of real-name registration and other regulatory policies, the telecommunications industry is undergoing unprecedented changes in 2015. With the mobile subscriber market saturating and the traditional voice business continuing to decline, the traditional subscriber-driven business growth is under pressure. As a result, the competition on traditional business is becoming more rational, the development focus is shifting from customer acquisition to putting equal weights on optimising existing customers and acquiring new customers in a quality way, and more attentions should be paid to balancing between quantity and quality and between business volume and revenue. Meanwhile, both the subscriber structure and the consumption structure are experiencing fast changes, with the subscribers upgrading from 2G and 3G to 4G and the consumption migrating from voice to data. The information consumption is fast spreading into every sector and every family, creating tremendous opportunities for operators' transformation and development.

Facing the new situation and new changes, the Company will further pursue its strategy of "Leading Mobile Broadband and Innovating Operational Integration" and seize new opportunities to realise new development. The Company will consolidate and enhance its broadband network advantages by fully leveraging on the integrated "mobile broadband + fixed-line broadband" network advantage, speeding up the construction of 3G+4G integrated high-quality mobile broadband network, and pushing forward the fiber optic upgrade of fixed-line broadband network. The company will proactively create differentiated service advantages through centralised operation, so as to improve operational efficiency and to enhance the capability to provide integrated and more convenient services to information consumers. The company will realise new development in the informatisation era by accelerating operational transformation and exploration in hot and emerging business areas such as Internet finance, industry applications, big data, Internet of Things and cloud computing.

In summary, the Company will seize new opportunities arising from the informatisation era, further accelerate its transformation and development, and achieve better and faster development so as to create greater value for its shareholders.



Chang Xiaobing
Chairman and Chief Executive Officer
Hong Kong, 3 March 2015

Note 1: The industry average growth rate is the year-on-year growth rate in key telecommunications business revenue released by MIIT (unadjusted). The unadjusted key telecommunications business revenue was RMB1,154.11 billion in 2014 and RMB1,168.91 billion in 2013, resulting in -1.3% year-on-year growth.

Note 2: Mobile broadband business includes both 3G and 4G businesses.


4G
3G
LTE
WCDMA
N
S
HOW
WE MAKE DIRECTIONS

TD-LTE LICENSE & TD-LTE/LTE FDD HYBRID NETWORK TRIAL

EVENT

4 Dec 2013 MIIT issued TD-LTE licenses to three operators

27 Jun 2014 MIIT approved China Unicom and China Telecom to conduct the TD-LTE/LTE FDD hybrid network trial in 16 cities

28 Aug, 17 Nov, 17 Dec 2014 MIIT approved China Unicom and China Telecom to expand the TD-LTE/LTE FDD hybrid network trial to 56 cities

IMPACT

The mobile data market enters 4G era; the mobile data business development will accelerate and the competitive landscape will experience new changes.

STRATEGY

Proactively leverage on its leading position in terms of network, business and service in 3G market, fully utilise its advantages in 3G network coverage and 3G supply chain, and speed up the construction of 3G+4G integrated high-quality mobile broadband network, so as to create new differentiated competitive advantages in the 4G era.

BUSINESS REVIEW

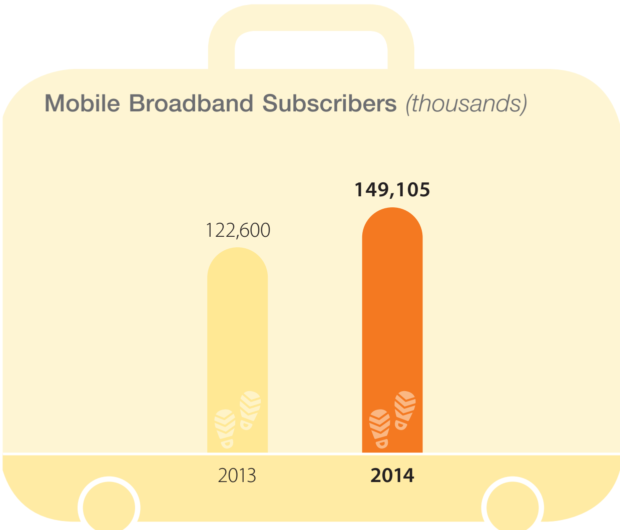
LU YIMIN

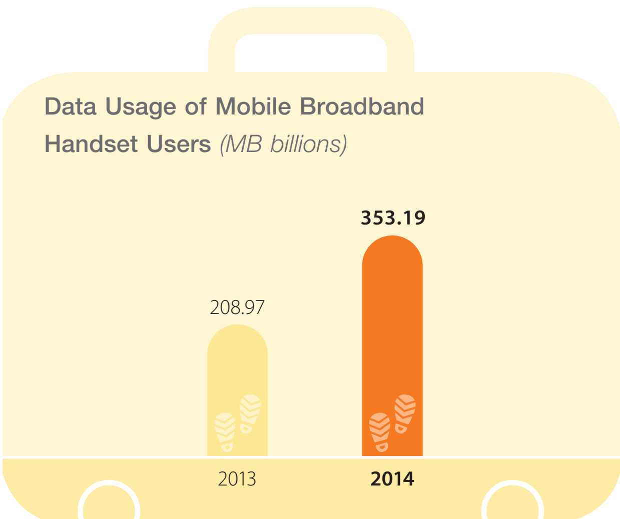
Executive Director and President

In 2014, the Company fully implemented the strategy of "Leading Mobile Broadband and Innovating Operational Integration". The Company focused on customer retention and data volume operation, carried out centralised operation, strengthened cost management, and pushed forward the transformation of sales and marketing business model. As a result, its profitability was significantly improved, and its revenue market share was further expanded.

MOBILE BUSINESS

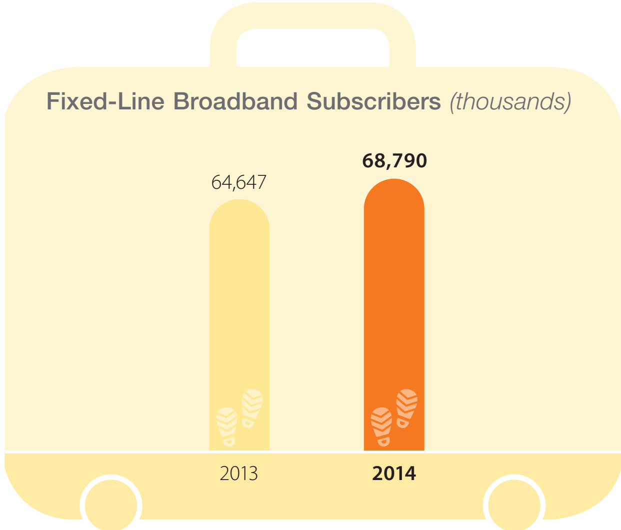
In 2014, the Company established the management mechanism to facilitate centralised operation and proactively carried out LTE hybrid network trials so as to ensure continuous mobile business growth. In order to drive the rapid development of its mobile broadband business, the Company leveraged on its terminal supply, product offering and service contracts. The Company launched a series of service packages that are supported by its centralised Business Support System (cBSS), including DIY packages, nationwide packages, local packages, campus packages and co-sharing packages. The Company conducted extensive sales and marketing activities to promote its "Dual 4G, Dual 100 MB Speed" products and services, and proactively upgraded its existing customers. To fully improve the efficiency of its distribution channels, the Company launched nation-wide run B2B "Woego" Platform, innovated cooperation models, and leveraged on its e-commerce platform to support the integrated development of online and offline sales and marketing activities. To fully carry out the Internet-oriented value added operation, the Company further promoted its "WO+" open platform, and launched innovative products such as "Semi-annual Data Package" and "Data Volume Bank" by cooperating with Internet companies on data volume, joint operation and distribution channels. During the year, the number of its mobile broadband subscribers increased by 26.505 million to 149.105 million, of which the number of wireless data card subscribers amounted to 8.064 million. The data usage of its mobile broadband handset users reached 353.19 billion MB, up by 69% year-on-year. Its mobile broadband ARPU was RMB63.6. The usage of WO+ services reached 330 million times, and the number of mobile music users reached 40.65 million.

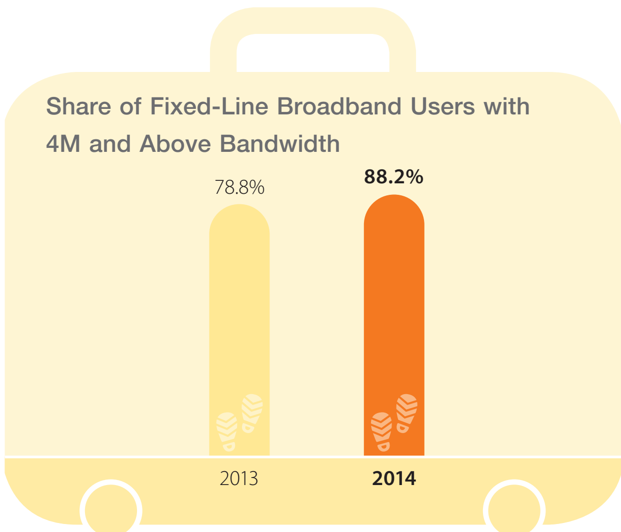




FIXED-LINE BUSINESS

In 2014, the Company further improved its professional sales and marketing system, strengthened its efforts in customer retention and promotion of bundled services, and improved both service quality and customer value. Leveraging on "Broadband China" Project, the Company rapidly upgraded its fiber optic network, and carried out sales and marketing campaign on network speed-up at the same time. As a result, the ratio of its fiber optic broadband users increased steadily, and the structure of its fixed-line revenue was further improved. During the year, the number of its broadband subscribers increased by 4.143 million to 68.79 million, of which users with bandwidth of 4M and above accounted for 88.2% of its broadband subscribers, up by 9.4 percentage points year-on-year. The number of its local access subscribers declined by 5.587 million to 82.056 million.

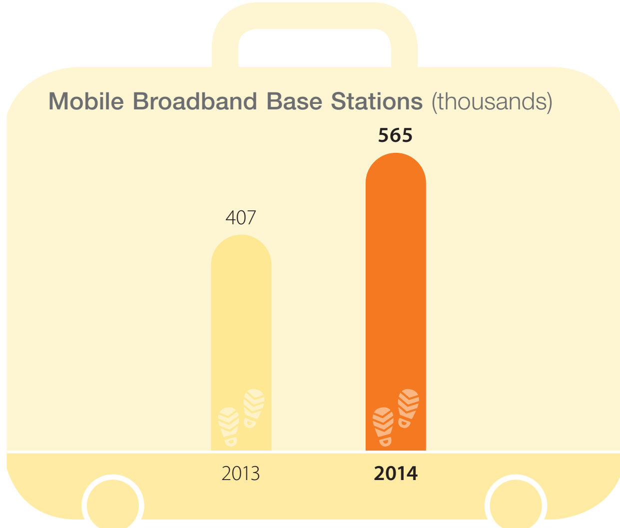


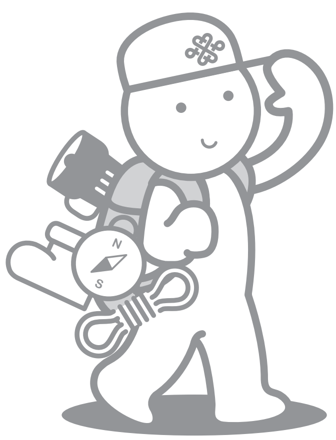


NETWORK CAPABILITIES

In 2014, the Company further accelerated the construction of its integrated and high-quality mobile broadband network, proactively carried out LTE hybrid network trials, and expanded its 3G network coverage steadily. The number of mobile broadband base station increased by 158 thousand to 565 thousand during the year. The Company accelerated the construction and upgrade of its fiber optic network, and the number of its fixed-line broadband access ports reached 135 million, of which 77.8% are FTTX.

The Company continued to expand its international network and to improve its international network layout. As at the end of 2014, its international Internet outbound bandwidth reached 1,025G; international submarine cable capacity reached 4,707G; international terrestrial cable capacity reached 2,737G; the number of its overseas network nodes reached 83, and its international roaming coverage reached 587 operators in 251 countries and regions.





SALES AND MARKETING

BRANDING

In 2014, centering on the "Choose 4G, Choose WO" theme, the Company leveraged on a series of its advantages, including broad network coverage, fast network speed, WO 4G packages featuring free combination of services, data volume co-sharing and cap, diversified portfolio of terminals and "Dual 4G, Dual 100M Speed", and fully utilised its own resources as well as those of the value chain partners, so as to deliver the "Wonderful WO" brand concept in an all-round manner and to further enhance the influence of its "WO" brand.

SALES AND MARKETING

In 2014, following the mobile Internet trend, the Company established the centralised marketing system based on its cBSS and "Woego" platforms, transformed its selling and marketing business model into a more centralised, specialised and flattened one, improved its customer retention system, and increased its sales and customer service capabilities. Meanwhile, the Company focused on sales and marketing, customer services, customer retention and use of resources to promote a more systematic operation in its fixed-line broadband business.

To address the needs of the mobile Internet, the Company fully enhanced the capabilities of its "WO+" open platform, further promoted the open and innovative operation and cooperation of its key businesses, strengthened the promotion of its key applications such as "WO+ Wealth", "365 Plan" and "APP Data Redirecting" through nationwide Internet distribution channels, launched new product such as "Data Volume Bank", and established the data volume-based ecosystem, so as to effectively facilitate its data business development.

The Company accelerated the development and promotion of its industrial applications, promoted its standardised applications such as "Class Connect" and automotive informatisation application, established the industrial informatisation ecosystem, and improved its marketing and operational capabilities to its enterprise customers. As a result, the Company increased the penetration rate of its enterprise customer business and its service revenue generated from enterprise customers continued to grow rapidly.

DISTRIBUTION CHANNELS

In 2014, the Company carried out professional management at its sales outlets, enhanced cooperation with its strategic distributors, strengthened customer service supports toward small and medium third-party distributors, and established a B2B e-commerce platform "Woego", so as to further enhance the productivity and efficiency of its distribution channels. During the year, the productivity of its core sales outlets increased by 21.3% year-on-year; commission expenses as a percentage of service revenue decreased year-on-year; and the number of the registered third-party distributors on "Woego"

Platform reached approximately 250 thousand, with the accumulated turnover exceeding RMB5.0 billion.

CUSTOMER CARE

In 2014, the Company improved its enlarged customer service system that centers on customer service accountability, carried out customer service improvement projects in key areas, further enhanced customer retention, and optimised user interface. As a result, the Company achieved continuous improvement in enlarged customer service system, service operation, customer retention and customer service quality. During the year, the amount of its customer complaints was the lowest in the industry.

REAL-NAME REGISTRATION POLICY

In 2015, the Company will strictly implement the government's real-name registration policy, fully carry out specific programs according to the government's requirement, and tightly control customers that are not real-name registered and invalid. The measures may cause short term fluctuation in the number of subscribers, but will help the Company improve its quality of development and profitability in the long term.

Note: Mobile broadband business includes both 3G and 4G business.

HOW
WE PREPARE OURSELVES

REPLACEMENT OF BUSINESS TAX WITH VALUE-ADDED TAX (VAT)

EVENT

29 Apr 2014 The Ministry of Finance and the State Administration of Taxation jointly issued a notice regarding the replacement of business tax (3%) with value-added tax (11% for basic telecommunications services and 6% for value-added telecommunications services) for the telecommunications industry from 1 June 2014.

IMPACT

In comparison with the business tax regime, the Company's operating revenue, costs & expenses and capital expenditure are expected to decrease under the VAT regime. In the short term, the replacement would result in a significant decline in the Company's net profit; in the long term, the impact of the replacement will become less significant.

STRATEGY

Raise the contribution of non-voice services to the Company's total revenue, optimise the sales & marketing model, and enhance tax management.

FINANCIAL OVERVIEW

I. OVERVIEW

In 2014, the Company sustained a stable service revenue growth and continued to optimise its revenue structure, resulting in further increase in market share and improved profitability.

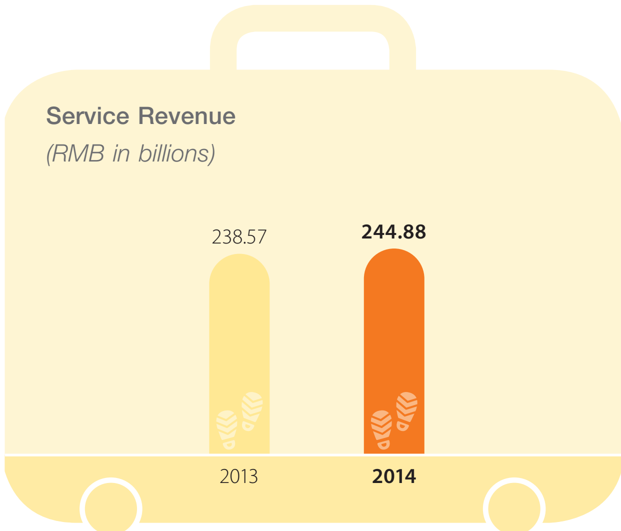
In 2014, the Company's revenue was RMB284.68 billion. Profit for the year was RMB12.06 billion, up by 15.8% compared with last year. Basic earnings per share was RMB0.505, up by 14.8% compared with last year.

In 2014, net cash flow from operating activities was RMB88.09 billion. Capital expenditure was RMB84.88 billion. Liabilities-to-assets ratio was 58.3% as at 31 December 2014.

II. REVENUE

In 2014, the Company's revenue was RMB284.68 billion, of which service revenue accounted for RMB244.88 billion, up by 2.6% compared with last year. Revenue from sales of telecommunications products was RMB39.80 billion.

The table below sets forth the composition of service revenue by business, including as a percentage of the service revenue for the years of 2014 and 2013.



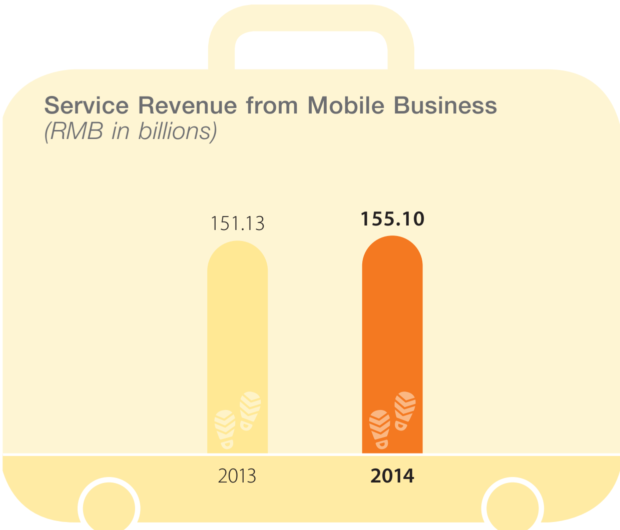
(RMB in billions)	2014 Total amount	2014 As a percentage of service revenue	2013 Total amount	2013 As a percentage of service revenue
Service revenue	**244.88**	**100.0%**	238.57	100.0%
Include: Mobile business	**155.10**	**63.3%**	151.13	63.4%
Include: Mobile broadband	**105.83**	**43.2%**	89.80	37.6%
Fixed-line business	**88.48**	**36.1%**	86.49	36.3%
Include: Fixed-line broadband	**50.20**	**20.5%**	45.99	19.3%

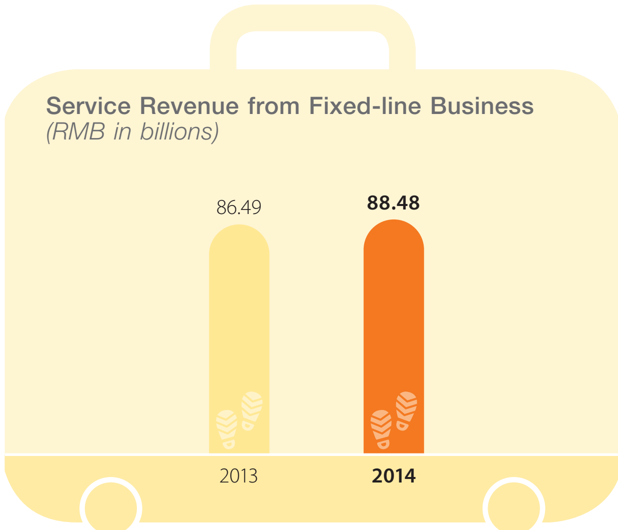
1. Mobile Business

In 2014, service revenue from the mobile business was RMB155.10 billion, up by 2.6% compared with last year. The growth of service revenue from the mobile business was significantly driven by the mobile broadband business[1]. Out of service revenue from the mobile business, service revenue from the mobile broadband business accounted for RMB105.83 billion, up by 17.9% compared with last year and, as a percentage of service revenue from the mobile business, increased from 59.4% in 2013 to 68.2% in 2014.

2. Fixed-line Business

In 2014, service revenue from the fixed-line business was RMB88.48 billion, up by 2.3% compared with last year, of which service revenue from fixed-line broadband business was RMB50.20 billion, up by 9.2% compared with last year and, as a percentage of service revenue from the fixed-line business, increased from 53.2% in 2013 to 56.7% in 2014.





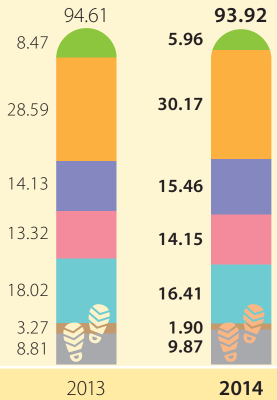
III. COSTS AND EXPENSES[2]

In 2014, the Company continued to optimise resources allocation and strengthen delicacy management, resulting in a significantly improved efficiency in costs and expenses. Total costs and expenses amounted to RMB268.75 billion, down by 4.5% compared with last year. Out of total costs and expenses, costs of telecommunications products sold accounted for RMB43.40 billion in 2014. Revenue from sales of telecommunications products accounted for RMB39.80 billion in 2014. Loss on sales of telecommunications products amounted to RMB3.60 billion, of which mobile broadband terminal subsidy cost accounted to RMB4.64 billion in 2014.

The adjusted total costs and expenses[3] amounted to RMB229.99 billion, up by 1.9% compared with last year and 0.7 percentage points lower than the increase in service revenue in 2014. 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 2014 and 2013:

Analysis of Adjusted Total Costs and Expenses*

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



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

* *Please refer to Note 3 for explanation*

(RMB in billions)	2014 Total amount	2014 As a percentage of service revenue	2013 Total amount	2013 As a percentage of service revenue
Total	**229.99**	**93.92%**	225.70	94.61%
Include: Interconnection charges	**14.60**	**5.96%**	20.21	8.47%
Depreciation and amortisation	**73.87**	**30.17%**	68.20	28.59%
Network, operation and support expenses	**37.85**	**15.46%**	33.70	14.13%
Employee benefit expenses	**34.65**	**14.15%**	31.78	13.32%
Selling and marketing expenses	**40.19**	**16.41%**	42.99	18.02%
Mobile broadband terminal subsidy cost	**4.64**	**1.90%**	7.80	3.27%
General, administrative and other expenses	**21.22**	**8.66%**	18.97	7.95%
Finance costs, net of interest income	**4.33**	**1.77%**	2.94	1.23%
Other income-net	**-1.36**	**-0.56%**	-0.89	-0.37%

1. Interconnection charges

Under the influence of the adjustments to interconnection settlement policy, the interconnection charges amounted to RMB14.60 billion in 2014, down by 27.8% compared with last year and, as a percentage of service revenue, decreased from 8.47% in 2013 to 5.96% in 2014.

2. Depreciation and amortisation

The Company accelerated the network construction for mobile broadband and fixed-line broadband. Depreciation and amortisation charges in 2014 were RMB73.87 billion, up by 8.3% compared with last year and, as a percentage of service revenue, changed from 28.59% in 2013 to 30.17% in 2014.

3. Network, operation and support expenses

The Company expanded its network coverage and increased the relevant assets. There was increase in utilities charges and rental expenses. Meanwhile, the Company increased investment in network operation and enhanced network support and maintenance. As a result, the Company incurred network, operation and support expenses of RMB37.85 billion in 2014, up by 12.3% compared with last year. Network, operation and support expenses, as a percentage of service revenue, changed from 14.13% in 2013 to 15.46% in 2014.

4. Employee benefit expenses

The Company implemented its pension plan, deepened the reform in recruitment and remuneration as well as resources allocation, and increased incentive for the staff. The Company's employee benefit expenses amounted to RMB34.65 billion in 2014, up by 9.0% compared with last year and, as a percentage of service revenue, changed from 13.32% in 2013 to 14.15% in 2014.

5. Selling and marketing expenses

The Company implemented costs control measures, focused on strengthening management of the selling and marketing expenses, proactively promoted the transformation of its sales and marketing model, optimised its product portfolio, terminal offering and distribution channels, and further improved the quality of its subscribers. In 2014, selling and marketing expenses were RMB40.19 billion, down by 6.5% compared with last year and, as a percentage of service revenue, decreased from 18.02% in 2013 to 16.41% in 2014.

6. Mobile broadband terminal subsidy cost

The Company fully continued to optimise terminal contract products structure and enhanced effectiveness on application of the terminal subsidy. The Company's mobile broadband terminal subsidy cost amounted to RMB4.64 billion in 2014, down by 40.4% compared with last year and, as a percentage of mobile broadband service revenue, decreased from 8.7% in 2013 to 4.4% in 2014.

7. General, administrative and other expenses

In 2014, general, administrative and other expenses were RMB21.22 billion, up by 11.8% compared with last year and, as a percentage of service revenue, changed from 7.95% in 2013 to 8.66% in 2014.

8. Finance costs, net of interest income

In 2014, finance costs, net of interest income, was RMB4.33 billion, up by RMB1.39 billion compared with last year.

9. Other income-net

In 2014, other income-net was RMB1.36 billion, up by RMB0.47 billion compared with last year.

IV. EARNINGS

1. Profit before income tax

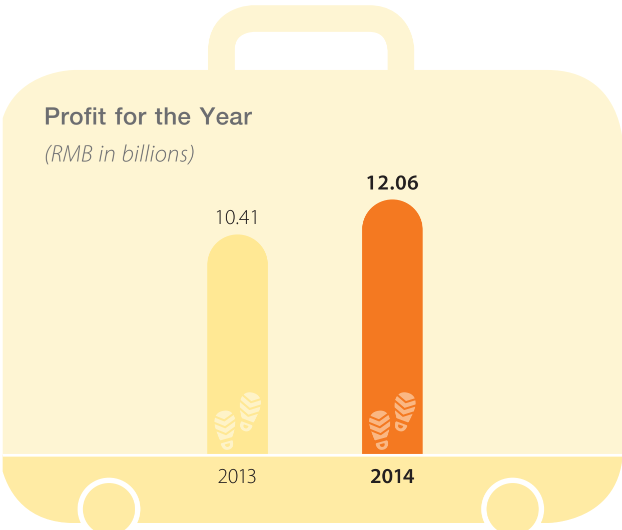
The Company accelerated development in terms of both scale and efficiency. The continuous improvement in profitability was primarily due to the improved business volume and efficiency. In 2014, the Company's profit before income tax was RMB15.93 billion, up by 16.2% compared with last year.

2. Income tax

In 2014, the Company's income tax was RMB3.88 billion and the effective tax rate was 24.3%.

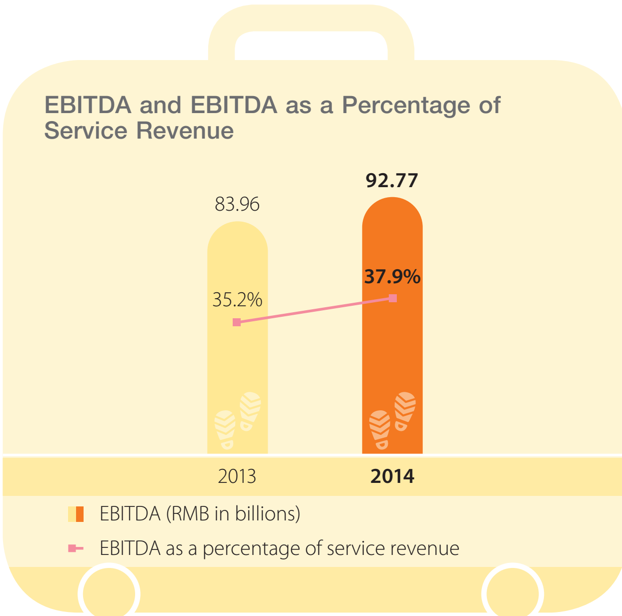
3. Profit for the year

In 2014, the Company's profit for the year was RMB12.06 billion, up by 15.8% compared with last year. Basic earnings per share was RMB0.505, up by 14.8% compared with last year.



V. EBITDA[4]

In 2014, the Company's EBITDA was RMB92.77 billion, up by 10.5% compared with last year. EBITDA as a percentage of service revenue was 37.9%, up by 2.7 percentage points compared with last year.



VI. CAPITAL EXPENDITURE AND CASH FLOW

In 2014, capital expenditure of the Company totaled RMB84.88 billion, which mainly consisted of investments in mobile network, broadband and data, and infrastructure and transmission network. Out of the total capital expenditure, capital expenditure attributable to mobile network was RMB36.95 billion; capital expenditure attributable to broadband and data business was RMB19.00 billion; and capital expenditure attributable to infrastructure and transmission network was RMB22.92 billion.

In 2014, the Company's net cash inflow from operating activities was RMB88.09 billion. Free cash flow was RMB3.21 billion after the deduction of the capital expenditure in 2014.

The table below sets forth the major items of the capital expenditure in 2014.

	2014	
RMB (in billions)	Total amount	As percentage
Total	**84.88**	**100.0%**
Include: Mobile network	**36.95**	**43.5%**
Broadband and data	**19.00**	**22.4%**
Infrastructure and transmission network	**22.92**	**27.0%**
Others	**6.01**	**7.1%**

VII. BALANCE SHEET

The Company's total assets increased from RMB529.17 billion as at 31 December 2013 to RMB545.07 billion as at 31 December 2014. Total liabilities changed from RMB310.27 billion as at 31 December 2013 to RMB317.53 billion as at 31 December 2014. The liabilities-to-assets ratio decreased from 58.6% as at 31 December 2013 to 58.3% as at 31 December 2014. The debt-to-capitalisation ratio decreased from 39.8% as at 31 December 2013 to 37.9% as at 31 December 2014. The net debt-to-capitalisation ratio was 31.0% as at 31 December 2014.

The Company's net current liabilities (i.e. current liabilities minus current assets) changed from RMB243.03 billion as at 31 December 2013 to RMB235.35 billion as at 31 December 2014. Taking into consideration 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.

Note 1: *Mobile broadband business included 3G business and 4G business.*

Note 2: *Including interconnection charges, depreciation and amortisation, network, operation and support expenses, employee benefit expenses, selling and marketing expenses, costs of telecommunications products sold, general, administrative and other expenses, finance costs, interest income and other income-net.*

Note 3: *For analytical purposes, the adjusted total costs and expenses were derived by including mobile broadband terminal subsidy cost, interconnection charges, depreciation and amortisation, network, operation and support expenses, employee benefit expenses, selling and marketing expenses, general, administrative and other expenses, finance costs, interest income and other income-net.*

Note 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 the Group.*

HOW
WE LIGHT UP THE PATH

REDUCING SELLING & MARKETING EXPENSES

EVENT

Jun 2014 The company started to reduce selling & marketing expenses (including handset subsidies) and further pushed forward the transformation.

IMPACT

In the short term, the reduction will slow down revenue growth but improve profitability; in the long term, the reduction will promote the transformation of sales & marketing model and make it more rational and efficient.

STRATEGY

Promote the transformation of sales & marketing model, and focus on profitable development and existing customers.

HUMAN RESOURCES DEVELOPMENT

China Unicom has always put employees first and strived to balance the development of the Company and its employees through constant innovation. In 2014, as part of its overall development strategy, the Company carried out proactive and competitive policies, and continued to enhance the core competitiveness and professional capabilities of its human resources.

Optimising human resources structure to improve efficiency. The Company took reasonable control on the number of its employees, and its labor productivity increased by 14.8%. The Company optimised the structure of its employees, with the ratio of bachelor degree (or above) holders up by 2.74 percentage points. The Company effectively standardised labor management, and thoroughly practiced "The Law on Employment Contract".

Improving personnel cost management to raise efficiency of resources allocation and profitability. The Company set up a specific incentive system to cope with the profit targets and the reduction of selling and marketing expenses. The Company adjusted

the amount of personnel cost according to the evaluation on the use efficiency of its personnel cost. The Company carried out its personnel cost management with clear definitions and principles to facilitate the transformation of its operational mode and the adjustment of its labor structure. The Company strengthened the distribution management on its employee benefit among different groups so as to built a fair and harmonious internal distribution mechanism.

Strengthening team building constantly to promote the structural optimisation and capability enhancement of its operational management teams at all levels. The Company improved the selection and appointment mechanism to facilitate the structural optimisation and capability enhancement of its operational management teams. The Company proactively improved the business capabilities of its management teams, and organised 21 leadership training classes on 16 items as well as 91 specific training classes for different departments.

	Number of Employees (excluding temporary staff)	Percentage
By Job Category		
Sales and Customer Service	75,829	33.2%
Product and Marketing	20,129	8.8%
Construction and Maintenance	79,046	34.6%
Support	27,515	12.0%
Management	24,743	10.8%
Others	1,351	0.6%
By Education Level		
Postgraduate Degree	14,082	6.2%
Undergraduate Degree	109,344	47.8%
College Degree	55,090	24.1%
Others	50,097	21.9%

CORPORATE SOCIAL RESPONSIBILITY

The Company received Best Social Responsibility Award from Ta Kung Pao in December 2014.

In 2014, the Company fully implemented the strategy of "Leading Mobile Broadband and Innovating Operational Integration", integrated the fulfillment of social responsibility into its strategy and operation, and made new contribution to the country's informatisation progress, the transformation and upgrade of traditional industries as well as the social well-being. Meanwhile, the Company strengthened the communication and co-operation with its stakeholders, and strived to meet their expectations and to create value for them.

1. BUILDING RELIABLE AND SECURE NETWORKS

The Company continued to optimise its different emergency communication systems in the southern and northern parts of China, and successfully completed the important emergency communication tasks for major events such as "APEC", "World Internet Conference" and "The Youth Olympic Games" as well as natural disasters such as earthquakes in Yunnan, Sichuan and Xinjiang and Typhoon Rammasun and Kalmaegi. In 2014, the Company sent out emergency communication vehicles for 106 thousand times with 400 thousand personnel involved. Meanwhile, the Company enhanced its efforts to purify the Internet environment by cleansing inappropriate apps, SMS spam and online pornographic contents, so as to provide consumers safe and healthy services.

2. ELIMINATING DIGITAL DIVIDE

The Company continued its "Village Coverage" project, and invested RMB580 million to complete the phone coverage for 201 natural villages as well as broadband coverage for 1,711 administrative villages. The Company launched a lot of agriculture-related applications such as "agrimachine.cn" and "12316 Integrated Service Platform" to facilitate the information sharing between farmers, agricultural institutions and society. The Company also launched a series of favorable packages for groups such as farmers, migrant workers, the elderly and the disabled so that the well-being brought about by technological progress could reach everybody. The Company further expanded its distribution channels in rural and remote areas to 310,000.

The Company built its base station in Shuanghu County, Tibet, the highest altitude county in the world.

3. PROVIDING SATISFACTORY SERVICES

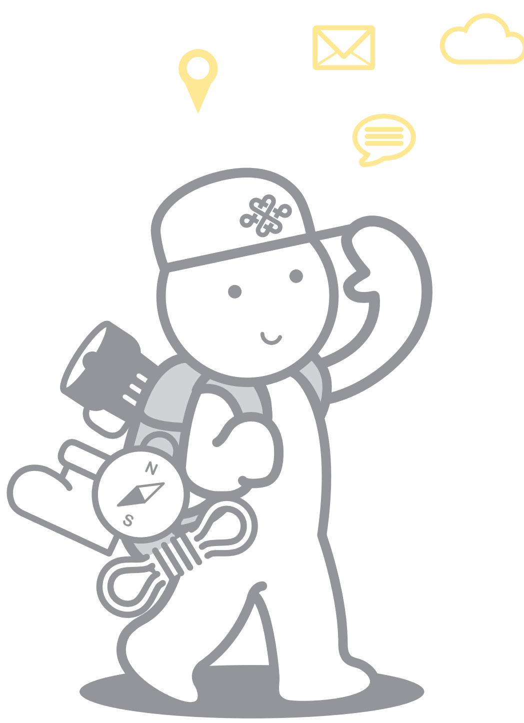
Centering on hot issues such as network quality, information security and tariff packages, the Company fully improved the quality of its services, and its total amount of customer complaints as well as the number of customer complaints per subscriber dropped by 36% and 50% yoy in 2014. The Company pushed forward the development of "Smart City", and signed strategic co-operation agreements with nearly 270 cities in 31 provinces. The Company enhanced its e-service capability by promoting various e-channels such as online store, mobile store, SMS store, Wechat store, self-service terminals, etc. The Company launched the Internet-oriented and nationwide-run B2B platform "Woego", and also introduced "Wo" financial services. During the year, the Company's e-commerce revenue exceeded RMB70 billion.

4. CREATING BEST PLATFORM FOR EMPLOYEES' WORK AND LIFE

The Company optimised its performance-oriented executive compensation mechanism and allocated incremental resources towards frontline employees. The Company replaced training with competition, and carried out a series of skill competitions in network security, IT support and call centers. The Company paid great attention to work safety and recorded zero accident throughout the year. The Company carried out surveys among frontline employees to understand issues that are most concerned, most urgent, most difficult, most worried out and most anxious. The Company conducted online suggestion program among all its employees and received 4,691 suggestions. The Company also invested RMB35.78 million to construct employee facilities and spent RMB24.17 million to help employees in difficulties.

5. PROMOTING GREEN AND LOW-CARBON DEVELOPMENT

The Company further pushed forward energy saving & emission reduction. The Company allocated a specific fund of RMB800 million to promote energy saving technologies. As a result, 57% of its base stations and 52% of its telecommunications centers were covered by energy saving technologies. The Company also enhanced its management measures and carried out specific projects such as slimming network layout, reducing power expenses at base stations and IDCs, resulting in new progress in energy saving & emission reduction. The Company carried out recycling activities and generated an income of RMB270 million from disposal and recycling. The Company also pushed forward the joint construction and co-sharing of telecommunications infrastructure, with the joint construction rate of towers reaching 84%, resulting in RMB3.2 billion CAPEX savings during the year.

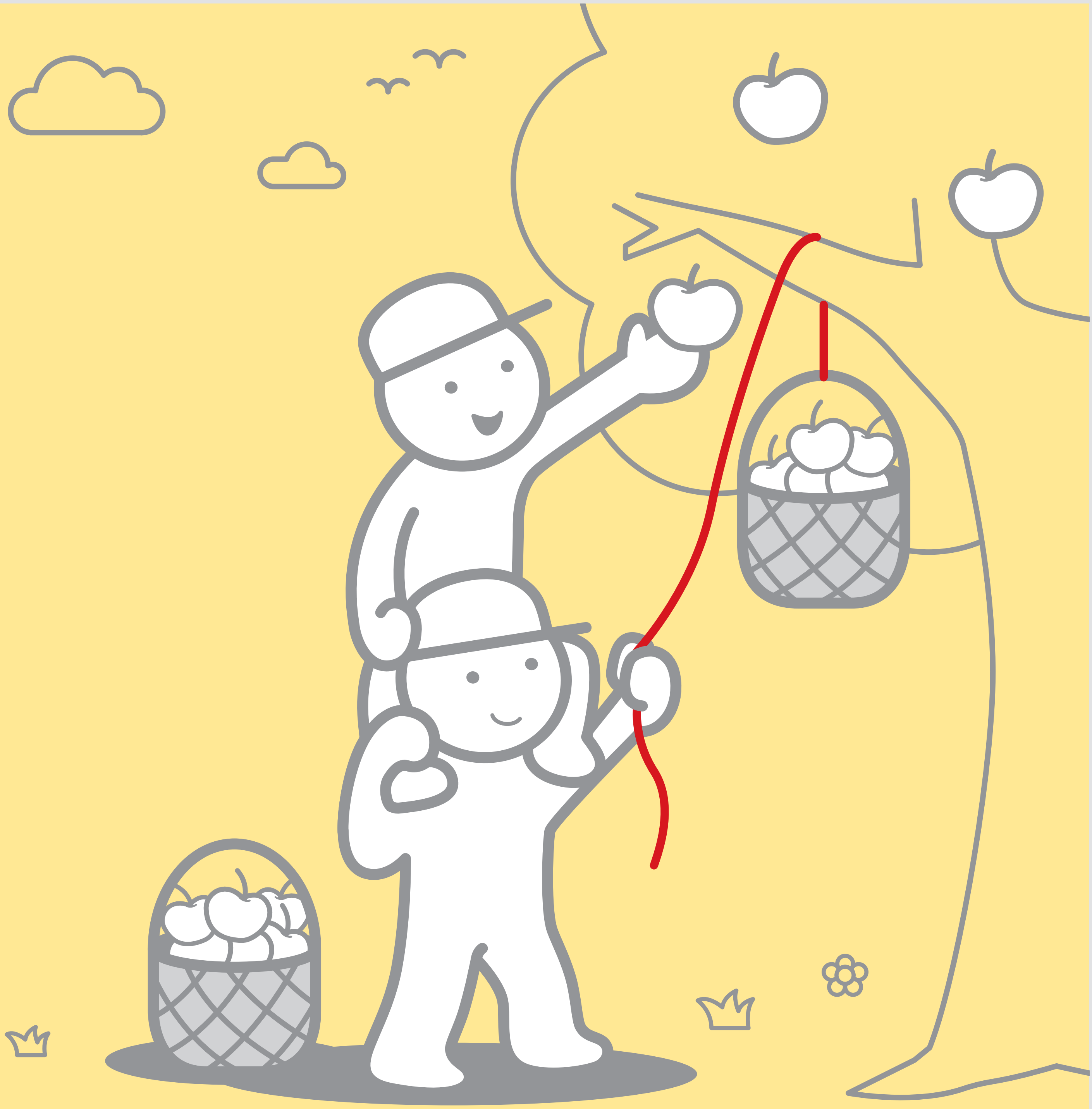


6. COMMITTED TO PUBLIC WELFARE AND CHARITY

The Company cares about people's livelihood and constantly contributes to the society. The Company continued its poverty relief efforts in Kangbao County, Guyuan County and Raohe County. The Company invested more in technology and science and accelerated agricultural informatisation so as to stimulate the organic force to develop in poor areas. The Company also carried out various public and voluntary activities, such as reconstructing disaster areas, cultivating youth entrepreneurs, helping the elderly and disabled, supporting education and environmental protection, and participated in community development.

7. INTEGRATED INTO LOCAL COMMUNITIES ABROAD

All overseas subsidiaries of the Company strictly obeyed the local laws and ensured full compliance with those laws. The Company promoted environmental protection, implemented green procurement system, and encouraged procurement localisation. All project procurements of China Unicom (Hong Kong) Operations Limited were carried out locally. The Company also promoted talent localisation, implemented a fair and transparent, more-pay-for-more-work incentive mechanism, and helped local employees adapt to its corporate culture through new employee orientation programs.



HOW
WE WORK TOGETHER

ESTABLISHING TOWER FACILITIES COMPANY

EVENT

11 Jul 2014 China Mobile, China Telecom and China Unicom joined together to establish China Communications Facilities Services Corporation Limited (later changed to China Tower Company Limited)

IMPACT

Help reduce duplicated and redundant construction of telecommunications towers and related infrastructure in the telecommunications industry to improve industry-wide investment efficiency; help lower the Company's capital expenditure, better utilise its existing assets, improve its market competitiveness and accelerate its business transformation and upgrade.

STRATEGY

Proactively cooperate with China Tower Company Limited and further optimise the Company's investment structure so as to rapidly enhance its overall network competitiveness.

CORPORATE INFORMATION

LIST OF DIRECTORS (As At 3 March 2015)

Directors

Chang Xiaobing *Executive Director, Chairman and Chief Executive Officer*
Lu Yimin *Executive Director and President*
Li Fushen *Executive Director and Chief Financial Officer*
Zhang Junan *Executive Director and Senior Vice President*
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

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Chu Ka Yee

AUDITOR

KPMG

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 2015. 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

LU YIMIN
Executive Director and President

Aged 58, 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.

Aged 51, 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.

LI FUSHEN

Executive Director and Chief Financial Officer

ZHANG JUNAN

Executive Director and Senior Vice President

Aged 52, 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.

Aged 58, was appointed in August 2014 as an Executive Director. Mr. Zhang 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. Mr. Zhang 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 August 2014. In addition, Mr. Zhang serves as a Non-Executive Director of China Communications Services Corporation Limited (listed on the Hong Kong Stock Exchange). Mr. Zhang also serves as Vice President of Unicom Group, a Director of A Share Company, 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.

CESAREO ALIERTA IZUEL

Non-Executive Director

Aged 69, 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 S.A. ("Telefónica") since July 2000. Mr. Alierta is a member of the Board of Directors of International Consolidated Airlines Group (IAG, listed on the stock exchanges of Madrid and London). He is also the Chairman of the Social Board of the UNED (National Long Distance Spanish University) and a member of the Columbia Business School Board of Overseers. Between 1970 and 1985, he was the General Manager of the Capital Markets division at Banco Urquijo in Madrid. He has been the founder and Chairman of Beta Capital. As from 1991, he has also acted as the Chairman of the Spanish Financial Analysts' Association. He has also been a member of the Board of Directors and the Standing Committee of the Madrid Stock Exchange. Between 1996 and 2000, he held the post of Chairman of Tabacalera, S.A., and subsequently Altadis following the company's merger with the French group Seita. Mr. Alierta served as a Non-Executive Director of China Netcom Group Corporation (Hong Kong) Limited ("China Netcom") during the period from December 2007 to November 2008. From April 2008 to December 2013 he was a member of the Board of Directors of Telecom Italia, S.p.A. In September 2005, Mr. Alierta received "The Global Spanish Entrepreneur" award from the Spanish/US Chamber of Commerce. Mr. Alierta holds a degree in law from the University of Zaragoza and received a master's degree in business administration at the University of Columbia (New York) in 1970.

CHEUNG WING LAM LINUS

Independent Non-Executive Director

Aged 66, was appointed in May 2004 as an Independent Non-Executive Director of the Company. Mr. Cheung is Chairman of the Council of Centennial College of the University of Hong Kong and an Independent Non-Executive Director of HKR International Limited (listed on the Hong Kong Stock Exchange). Mr. Cheung was Chairman of the Board of Governors of Centennial College, Chairman of the University of Hong Kong School of Professional and Continuing Education, Chairman of Asia Television Limited, Deputy Chairman of PCCW Limited, an Independent Non-Executive Director of Taikang Life Insurance Company Limited, as well as President of the Chartered Institute of Marketing (Hong Kong Region). Prior to the merger of Pacific Century Cyberworks Limited and Cable & Wireless HKT Limited, or Hongkong Telecom, Mr. Cheung was the Chief Executive of Hongkong Telecom and an Executive Director of Cable & Wireless plc in the United Kingdom. Mr. Cheung 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

JOHN LAWSON THORNTON*

Independent Non-Executive Director

Aged 57, was appointed in January 2006 as an Independent Non-Executive Director of the Company. Mr. Wong is Executive Vice President and Chief Financial Officer of Lenovo Group Limited (listed on the Hong Kong Stock Exchange and the New York 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 Limited (listed on the Hong Kong Stock Exchange). Mr. Wong served as a Non-Executive Director of Linmark Group Limited from July 2007 to February 2015. 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.

Aged 61, was appointed in October 2008 as an Independent Non-Executive Director of the Company. Mr. Thornton is currently a Professor and Director of the Global Leadership Program, and Member of the Advisory Board, at the Tsinghua University School of Economics and Management in Beijing. He is the Chairman of Barrick Gold Corporation (listed on the Toronto Stock Exchange and New York Stock Exchange). He is the Chairman of the Board of Trustees of the Brookings Institution in Washington, D.C. Mr. Thornton is a Director of Ford Motor Company (listed on the New York Stock Exchange). He is also an advisory board member of China Investment Corporation (CIC) and China Securities Regulatory Commission (CSRC). Mr. Thornton served as a Director of HSBC Holdings plc from December 2008 to May 2013, a Director of News Corporation from June 2004 to November 2012 and an Independent Non-Executive Director of China Netcom Group Corporation (Hong Kong) Limited 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.

* Subsequent to period end, Mr. John Lawson Thornton resigned as Independent Non-Executive Director of the Company, with effect from 4 March 2015.

CHUNG SHUI MING TIMPSON

Independent Non-Executive Director

Aged 63, was appointed in October 2008 as an Independent Non-Executive Director of the Company. Mr. Chung is a member of the National Committee of the 12th Chinese People's Political Consultative Conference. He is also the Chairman of the Advisory Committee on Arts Development. Besides, Mr. Chung is an Independent Non-Executive Director of Glorious Sun Enterprises Limited, The Miramar Hotel & Investment Co. Limited, China Overseas Grand Oceans Group Limited, China Everbright Limited, Henderson Land Development Company Limited, China Construction Bank Corporation, Jinmao Investments and Jinmao (China) Investments Holdings 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 Group Corporation (Hong Kong) Limited ("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 47, 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

JIANG ZHENGXIN

Senior Vice President

Aged 62, was appointed in November 2012 as an Independent Non-Executive Director of the Company. Mrs. Law is currently Chairman of the Board of Directors of Hong Kong Science and Technology Parks Corporation, 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 alumnus of the Science Faculty of the University of Hong Kong. She received a Master degree in Public Administration from Harvard University and was named a Littauer Fellow of Harvard University. She also holds a Master degree in Education from the Chinese University of Hong Kong and is a Fellow of The Hong Kong Institute of Directors.

Aged 57, 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 Vice President 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

XIONG YU

Senior Vice President

Aged 51, 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.

Aged 45, was appointed as Senior Vice President of the Company in October 2014. Mr. Xiong is a senior engineer. He received a bachelor's degree in radio technology from Southeast University in 1991 and a master's degree in business administration from Central South University in 2009. Mr. Xiong joined China United Telecommunications Corporation in January 2003. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited ("Unicom Group"). Mr. Xiong was General Manager of Chenzhou Branch, General Manager of Changsha Branch, General Manager of Nanjing Branch, General Manager of Hubei Branch, as well as General Manager of Marketing and Sales Department of Unicom Group. Mr. Xiong also serves as a Vice President of Unicom Group. Mr. Xiong Yu 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) Directors, (ii) remuneration of Directors and senior management and evaluation of the Board of Directors (the "Board"), (iii) accountability and audit, (iv) delegation by the Board, (v) communication with shareholders and (vi) company secretary.

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 media enquiry policies and practices on compliance with legal and regulatory requirements; developing, reviewing and monitoring the code of conduct and compliance manual applicable to employees and Directors; and reviewing the Company's compliance with the Code.

Other than the disclosures made in the section headed "(1) Board of Directors" below, the Company confirms that for the year ended 31 December 2014, 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. As at 3 March 2015, The Board comprises 11 directors, including four executive directors, one non-executive director and six independent non-executive directors. One of the Board members is female. The Board is well diversified and its composition reflects a number of factors, including professional knowledge, skills, experience and diversity of perspectives which are appropriate to the Company's business model and specific needs. Particulars of the Directors are set out on pages 42 to 47 of this annual report. The Board has a policy concerning diversity of board members. Further information on the board diversity policy is set out on page 56 of this annual report.

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 business development, strategy and operation and management, of the Company. Mr. Lu Yimin is responsible for the daily operation and management of the Company.

The Company received Platinum Corporate Award from "The Asset" magazine for the second consecutive year in December 2014.

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 acknowledges 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 areas. They have been making positive contributions to the development of the Company's strategies and policies through independent, constructive and informed 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. The functions of non-executive directors and independent non-executive directors include, amongst other things, attending board meetings, exercising 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. The Nomination Committee will consider candidates on merit against objective criteria and with due regard to the benefits of diversity on the Board. After having obtained the consent from candidates in relation to the relevant nomination and based on the Company's actual needs, the Board would convene a meeting, attendees of which include independent non-executive directors and non-executive 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 articles of association (the "Articles of Association"). All Directors of the Company are subject to retirement by rotation at least once every three years.

Mr. Chang Xiaobing, Mr. Zhang Junan, Mr. Cesareo Alierta Izuel and Mr. Chung Shui Ming Timpson (together, the "Directors for Re-Election") will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election. Particulars of the Directors for Re-election and their proposed remuneration are set out on pages 42 to 46 and page 75 of this annual report.

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

Directors' training is an ongoing process. The Company regularly invites various professionals to provide trainings on the latest changes and development of the legal and regulatory requirements as well as the market and/or industrial environment to Directors. During the year ended 31 December 2014, 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. Li Fushen, Mr. Zhang Junan, Mr. Cheung Wing Lam Linus, Mr. John Lawson Thornton, Mr. Chung Shui Ming Timpson, Mr. Cai Hongbin and Mrs. Law Fan Chiu Fun Fanny attended relevant training organised by the Company; Mr. Cesareo Alierta Izuel attended various trainings in legislative and industrial environment update held by Telefónica S.A.; Mr. Wong Wai Ming and Mr. Chung Shui Ming Timpson also attended various professional trainings in accounting; Mrs. Law Fan Chiu Fun Fanny attended various trainings in legislative update held by different organisations.

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 eligible participants, including Directors (details of such share option schemes are set out in the paragraph headed "Share Option Schemes of the Company" on pages 66 to 73 of this annual report). The remuneration for each Director and the remuneration of senior management by band are disclosed on pages 160 to 162 of this annual report. In addition to the remuneration, the Company has arranged appropriate insurance coverage in respect of legal action against the Directors.

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

The Board convenes meetings regularly and all Directors have adequate opportunity to be 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 compliance with the procedures as set forth in the Articles of Association and the charters of the board committees. Additionally, the Company Secretary is responsible for compiling and regularly submitting draft minutes of board meetings and committee meetings to the Directors and committee members for their comment, and final versions of minutes for their records, within a reasonable time after the relevant meetings. Each Director may obtain advice from and the services of the Company Secretary to ensure that board procedures, and all applicable rules and regulations, are followed. Physical board meetings will be held for the selection, appointment or dismissal of the Company Secretary. To ensure the possession of up-to-date knowledge and market information to perform her duties, the Company Secretary attended sufficient professional training in 2014.

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

All Directors are required to devote sufficient time and attention to the affairs of the Company. A culture of openness and debate are promoted in the Board and the Directors are encouraged to express their views and concerns. 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, adequate, accurate, clear, complete and reliable information regarding those matters is provided in advance and in a timely manner, and all Directors have the right to inspect documents and information in relation to matters to be decided by the Board. The Directors have frequently visited various branches in Mainland China to gain better understanding of the Company's daily operations. In addition, the Company has arranged relevant trainings for the Directors (which include training sessions conducted by professional advisers, such as lawyers and accountants, from time to time) in order to broaden their knowledge in the relevant areas and to improve their understanding of the Company's business and the latest operational technologies. The Board also conducts annual evaluation of its performance. Such efforts have improved the corporate governance of the Company.

In 2014, the Board held five full board meetings for, amongst other things, discussion and approval of important matters such as the 2013 annual results, the 2013 Form 20-F, the 2014 annual budget, the 2014 interim results, the first and third quarter results for 2014, the establishment of China Tower Company Limited (formerly known as China Communications Facilities Services Corporation Limited), the new share option scheme and reports on internal control.

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

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

Note 1: On 8 August 2014, Mr. Zhang Junan was appointed as executive director of the Company, and Mr. Tong Jilu retired as executive director and senior vice president 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.

(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

As at 3 March 2015, 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. The Chairman of the Audit Committee is an accountant with expertise and experience in accounting and financial management. Another member of the Audit Committee is also an accountant with extensive accounting professional experience.

Major Responsibilities

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

Work Completed in 2014

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 four meetings in 2014 for, amongst other things, discussion and approval of the 2013 annual results, the 2013 Form 20-F, the 2014 interim results, and the first and third quarter results for 2014. In addition, the Audit Committee approved in the meetings the reports on internal control, the report on internal audit findings in 2013 and the action plan for 2014; the re-appointment, the audit fees and the audit plans of the independent auditor as well as the non-audit services provided by the independent auditor in 2014.

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

As at 3 March 2015, 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 Completed in 2014

The Remuneration Committee meets at least once a year.

The Remuneration Committee held one meeting in 2014 for, amongst other things, discussion and approval of the 2013 appraisal report and the 2014 performance contract of the CEO, bonus for senior management for 2013 and the new share option scheme.

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

As at 3 March 2015, 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 (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the corporate strategy of the Company; identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board; formulating, reviewing and implementing the board diversity policy; assessing the independence of independent non-executive directors; making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors; giving its opinion to the Board on candidates of the senior management nominated by the CEO and on changes to the senior management of the Company.

Work Completed in 2014

The Nomination Committee meets at least once a year.

The Nomination Committee held three meetings in 2014 for, amongst other things, reviewing the structure, size and composition of the Board, assessment of the independence of independent non-executive directors, making recommendations to the Board on the appointment and proposed re-election of Directors and giving opinion to the Board on appointment of senior management.

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

(3) Preparation of Financial Statements and Financial Reporting

The Directors understand that the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "New 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 2014 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 page 89 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 450 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 strengthening the operation and management, improving internal control systems, mitigating operational risks and increasing the economic efficiency of the Company.

In 2014, certain management personnel of the Company were investigated and penalised for individual violations of disciplinary rules and laws, which indicates certain insufficiency on such personnel's compliance with relevant rules and laws. In this regard, the Company will continue to enhance its employees' compliance awareness and to strengthen its risk prevention. Those individual violations do not have any impact on the effectiveness of the Company's internal control system.

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 2014 based on thorough discussions with and/or review of evaluation report prepared by the Company's internal audit department and 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 Control Policy. 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 2014, 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 2014. 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 2014 to be filed with the United States Securities and Exchange Commission by 30 April 2015.

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

In accordance with the requirements of Section 303A.11 of the New York Stock Exchange Listed Company Manual, the Company has posted on its website (www.chinaunicom.com.hk) 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.

INDEPENDENT AUDITOR

KPMG is the independent auditor of the Company. 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 2014 is as follows:

Items	Note	2014 (in RMB thousands)
Audit services	(i)	63,253
Audit-related services	(ii)	330
Taxation services		30
Others	(iii)	914
Total		64,527

Notes:

(i) Audit services in 2014 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 2014, the provisions of audit-related services mainly include professional services in relation to the issuance of promissory notes.

(iii) Other services include providing one of the Company's subsidiaries with permitted advisory services on its business process performance evaluation mechanism, and providing services to two of the Company's subsidiaries in relation to their voluntary liquidation.

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 16 April 2014, 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 2013

- to declare a final dividend for the year ended 31 December 2013
- to re-elect Mr. Lu Yimin, Mr. Cheung Wing Lam Linus, Mr. Wong Wai Ming and Mr. John Lawson Thornton as Directors, and to authorise the Board to fix remuneration of the Directors for the year ending 31 December 2014
- to re-appoint auditor and authorise the Board to fix their remuneration for the year ending 31 December 2014
- to grant a general mandate to issue new shares
- to grant a general mandate for share buy-back
- to extend the general mandate to issue new shares
- to approve the adoption of the new share option scheme

The next annual general meeting will be held on 8 May 2015. Please refer to the "Notice of Annual General Meeting" on pages 86 to 88 of this annual report for details.

Putting Forward Resolutions at Annual General Meetings

Prior to the implementation of the New Companies Ordinance on 3 March 2014, 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. With effect from 3 March 2014 and pursuant to Section 615 of the New 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 who have a right to vote on the resolution at the annual general meeting to which the requests relate.

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, 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 566 of the New Companies Ordinance, shareholder(s) holding not less than 5% of the total voting rights of all shareholders having a right to vote at general meetings of the Company as at the date of deposit of the requisition, may request the Directors of the Company to convene an extraordinary general meeting. The requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the registered office of the Company. The position remains the same during the period from 1 January 2014 to 2 March 2014 (being the day immediately prior to the implementation of the New Companies Ordinance).

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

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

Putting Forward Resolutions at Extraordinary General Meetings

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

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

(3) Articles of Association

Rights of the shareholders are provided under the Articles of Association. In 2014, there had been no significant change in the Articles of Association. The Board proposes to adopt a new set of the Articles of Association in light of the New Companies Ordinance and the details of the proposed adoption of the new Articles of Association are set out in a separate circular to shareholders enclosed with this annual report.

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 and actively attends investor conferences arranged by investment banks, through which the Company's management meets and communicates with investors to provide them with opportunities to understand more accurately the Company's latest development and performance in various aspects, including business operations and management.

In 2014, the Company participated in the following investor conferences:

Date	Event	Location
7 January 2014	CIMB 4G Corporate Day	Hong Kong
10 January 2014	Citi Hong Kong and China Corporate Day 2014	Hong Kong
13-14 January 2014	DB Access China Conference 2014	Beijing
14-15 January 2014	UBS Greater China Conference 2014	Shanghai
24 January 2014	CICC Corporate Day	Hong Kong
20-21 March 2014	Morgan Stanley Second Annual Asia TMT & Internet Conference	Hong Kong
25-26 March 2014	Credit Suisse 17th Asian Investment Conference	Hong Kong
07-08 May 2014	Macquarie Greater China Conference	Hong Kong
13 May 2014	CLSA China Forum	Beijing
14 May 2014	DBS Pulse of Asia Conference	Hong Kong
15 May 2014	UBS Pan-Asian Telco Conference	Hong Kong
20 May 2014	BNP Paribas 5th Asia Pacific TMT Conference	Hong Kong
20-21 May 2014	5th dbAccess Asia Conference	Singapore
29 May 2014	Goldman Sachs Telecom & Internet Corporate Day	Hong Kong
03-04 June 2014	BofAML 2014 Global Telecom & Media Conference	London
10 June 2014	JP Morgan 10th Annual China Summit	Beijing
3 September 2014	Nomura China Investor Forum 2014	Shanghai
11 September 2014	CIMB China TMT Corporate Day	Hong Kong
16-17 September 2014	21st CLSA Investors' Forum	Hong Kong
14-15 October 2014	Macquarie Great China Corporate day	London
4-5 November 2014	Citi China Investor Conference 2014	Macau
6 November 2014	BoAML China Conference 2014	Beijing
12-14 November 2014	Morgan Stanley 13th Annual Asia Pacific Summit	Singapore
17-18 November 2014	JP Morgan Global TMT Conference 2014	Hong Kong
18 November 2014	Goldman Sachs Greater China CEO Summit 2014	Hong Kong
19 November 2014	9th Annual Daiwa Investment Conference	Hong Kong
4-5 December 2014	Barclays Asia TMT 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 2014.

PRINCIPAL ACTIVITIES

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.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2014 are set out on pages 94 to 95 of this annual report.

In view of the Group's performance during 2014, the Board recommends the payment of a final dividend of RMB0.20 per ordinary share ("2014 Final Dividend"), totaling approximately RMB4,789 million for the year ended 31 December 2014.

FINANCIAL INFORMATION

Please refer to the Financial Summary on pages 178 to 179 for the summary of the operating results, assets and liabilities of the Group for the five years ended 31 December 2014.

Please refer to the financial statements on pages 90 to 179 for the operating results of the Group for the year ended 31 December 2014 and the respective financial positions of the Group and the Company as at that date.

LOANS

Please refer to Notes 21, 26 and 40.1(b) to the financial statements for details of the borrowings of the Group.

PROMISSORY NOTES

Please refer to Note 22 to the financial statements for details of the promissory notes of the Group.

CONVERTIBLE BONDS

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

CORPORATE BONDS

Please refer to Note 24 to the financial statements for details of the corporate bonds of the Group.

COMMERCIAL PAPERS

Please refer to Note 27 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 2014, no property, plant and equipment was pledged to banks as loan security (31 December 2013: Nil).

SHARE CAPITAL

Please refer to Note 19 to the financial statements for details of the share capital of the Company.

RESERVES

Please refer to pages 96 to 97 of this annual report for the movements in the reserves of the Group and the Company during the year ended 31 December 2014. As at 31 December 2014, the distributable reserve of the Company amounted to approximately RMB4,930 million (2013: approximately RMB4,410 million).

SUBSIDIARIES AND ASSOCIATES

Please refer to Notes 11 and 12 to the financial statements for details of the Company's subsidiaries and associates.

CHANGES IN SHAREHOLDERS' EQUITY

Please refer to page 96 of this annual report for the Consolidated Statement of Changes in Equity and page 97 for the Statement of Changes in Equity.

EMPLOYEE BENEFIT EXPENSES

Please refer to Note 31 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 2014 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 2014 represented approximately 17.78% 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 2014 accounted for approximately 46.84% of the total purchases of the Group for the year.

None of the Directors nor their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) nor any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in the five largest suppliers of the Group for the year ended 31 December 2014.

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 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 (if applicable);

   (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.

During the year ended 31 December 2014, 262,000 options at the exercise price of HKD5.92 for each option granted under the Share Option Scheme were lapsed and the following share options granted under the Share Option Scheme were exercised:

Number of Options	Exercise Price (HKD)
13,592,000	5.92
128,000	6.20
68,328,000	6.35

As at 31 December 2014, 3,540,000 share options had been granted and remained valid under the Share Option Scheme, representing approximately 0.01% 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, no share options were held by the Directors or their associates as at 31 December 2014. Please refer to the subsection headed "Share Option Schemes of the Company – 4. 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 2014 are governed by the terms of the Share Option Scheme.

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 then 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. Following the expiry of the Special Purpose Share Option Scheme, the provisions of the Special Purpose 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 Special Purpose Share Option Scheme. 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:

Number of Special Unicom Options = X x Y

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, sub-division 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 (if applicable) 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 2014 (as extended by the Board). Any Special Purpose 2004 Unicom Option not exercised by 16 November 2014 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 4 under the subsection headed "Share Option Schemes of the Company – 4. 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 2014 (as extended by the Board). Any Special Purpose 2005 Unicom Option not exercised by 5 December 2014 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 4 under the subsection headed "Share Option Schemes of the Company – 4. 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.

During the year ended 31 December 2014, the following share options granted under the Special Purpose Share Option Scheme were exercised:

Number of Options	Exercise Price (HKD)
39,067,899	5.57
44,082,184	8.26

During the year ended 31 December 2014, 4,607,797 options at the exercise price of HKD5.57 for each option and 890,197 options at the exercise price of HKD8.26 for each option, both granted under the Special Purpose Share Option Scheme, were lapsed.

As at 31 December 2014, no share options had been granted and remained valid under the Special Purpose Share Option Scheme.

3. 2014 Share Option Scheme

On 16 April 2014, the Company adopted a new share option scheme (the "2014 Share Option Scheme"). The purpose of the 2014 Share Option Scheme was to recognise the contribution that certain individuals have made to the Company, to attract and retain the best available personnel and to promote the success of the Company. The 2014 Share Option Scheme is valid and effective for a period of 10 years commencing on 22 April 2014 and will expire on 22 April 2024. Following the expiry of the 2014 Share Option Scheme, no further share option can be granted under the 2014 Share Option Scheme, but the provisions of the 2014 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 2014 Share Option Scheme. Under the 2014 Share Option Scheme:

(1) share options may be granted to employees including all Directors;

(2) any grant of share options to a Connected Person (as defined in 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) and all grants to connected persons shall be subject to compliance with the requirements of the Listing Rules, including where necessary the prior approval of the shareholders;

(3) the maximum aggregate number of shares in respect of which share options may be granted pursuant to the 2014 Share Option Scheme shall be calculated in accordance with the following formula:

$$N = A - B - C$$

where:

"N" is the maximum aggregate number of shares in respect of which share options may be granted pursuant to the 2014 Share Option Scheme;

"A" is the maximum aggregate number of shares in respect of which shares options may be granted pursuant to the 2014 Share Option Scheme and any other share option schemes of the Company, being 10% of the aggregate of the number of shares in issue as at the date of adoption of the 2014 Share Option Scheme;

"B" is the maximum aggregate number of shares underlying the share options already granted pursuant to the 2014 Share Option Scheme; and

"C" is the maximum aggregate number of shares underlying the options already granted pursuant to any other share option schemes of the Company.

Shares in respect of share options which have lapsed in accordance with the terms of the 2014 Share Option Scheme and any other share option schemes of the Company will not be counted for the purpose of determining the maximum aggregate number of shares in respect of which options may be granted pursuant to the 2014 Share Option Scheme.

(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 closing price of the shares on the Hong Kong Stock Exchange on the offer date in respect of the share options; and

(b) 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 2014 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.

No share options had been granted since adoption of the 2014 Share Option Scheme.

As at 31 December 2014, 1,777,437,107 options were available for issue under the 2014 Share Option Scheme, representing approximately 7.42% of issued share capital of the Company as at the latest practicable date prior to the printing of this annual report.

4. 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 [4]	Exercise Price (HKD)	No. of Options Outstanding as at 1 January 2014 [1]	Granted [1]	Exercised [1]	Lapsed [1]	No. of Options Outstanding as at 31 December 2014 [1]
Directors								
Chang Xiaobing (Chairman and CEO)	Beneficial owner (Personal)	15 February 2006	6.35	746,000	–	(746,000)	–	–
Employees[2]								
		20 July 2004	5.92	13,854,000	–	(13,592,000)	(262,000)	–
		21 December 2004	6.20	128,000	–	(128,000)	–	–
		15 February 2006	6.35	71,122,000[3]	–	(67,582,000)[3]	–	3,540,000
		15 October 2008	5.57	43,675,696	–	(39,067,899)	(4,607,797)	–
		15 October 2008	8.26	44,972,381	–	(44,082,184)	(890,197)	–
								3,540,000[2]
Total				**174,498,077**				**3,540,000**

Notes:

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

2. The share options outstanding as at 31 December 2014 include approximately 1,026,000 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. The numbers of share options outstanding as at 1 January 2014 and 8 August 2014 include 200,000 share options held by Mr. Tong Jilu, who retired as an executive director on 8 August 2014, as beneficial owner (personal).

4. Particulars of share options are as follows:

Date of Grant	Exercise Price (HKD)	Exercise Period*
Options Granted under the Share Option Scheme:		
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 2010 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" was in force until middle of 2013, 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 2014, approximately 1,026,000 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 during the "Mandatory Moratorium Period" due to "Mandatory Moratorium", which was in force until middle of 2013 under the respective terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme.

5. Details of share options exercised during the year ended 31 December 2014 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
20 July 2004	5.92	11.94	80,464,640	13,592,000
21 December 2004	6.20	13.30	793,600	128,000
15 February 2006	6.35	11.85	433,882,800	68,328,000
15 October 2008	5.57	12.27	217,608,197	39,067,899
15 October 2008	8.26	12.41	364,118,840	44,082,184

REPURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

For the year ended 31 December 2014, 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 Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) ("SFO") as at 31 December 2014:

		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	75.30%
(ii)	China United Network Communications Limited ("Unicom A Share Company")[1]	–	9,725,000,020	40.61%
(iii)	China Unicom (BVI) Limited ("Unicom BVI")[1]	9,725,000,020	–	40.61%
(iv)	China Unicom Group Corporation (BVI) Limited ("Unicom Group BVI")[2,3]	8,082,130,236	225,722,791	34.69%

Notes:

1. 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.

2. 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.

3. Unicom Group BVI holds 8,082,130,236 shares (representing 33.75% 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 0.94% of the total issued shares) of the Company held as trustee on behalf of a PRC shareholder.

Apart from the foregoing, as at 31 December 2014, 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 19 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
Li Fushen
Zhang Junan (appointed on 8 August 2014)
Tong Jilu (retired on 8 August 2014)

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

Subsequent to period end, Mr. John Lawson Thornton resigned as Independent Non-Executive Director of the Company, with effect from 4 March 2015.

Pursuant to the Articles of Association, Mr. Chang Xiaobing, Mr. Zhang Junan, Mr. Cesareo Alierta Izuel and Mr. Chung Shui Ming Timpson (together, the "Directors for Re-Election") 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 for Re-Election are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 42 to 46 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 – 4. 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 advance notice or to make payments equivalent to more than one year's emoluments to terminate the service (other than statutory compensation). However, the Directors are subject to retirement by rotation at annual general meetings in accordance with the Articles of Association.

Please refer to Note 31 to the financial statements for details of the emoluments of the Directors.

The proposed remuneration package of each executive director and senior management of the Company will be determined by the Remuneration Committee, subject to approval by the Board and compliance with the applicable PRC laws, regulations and policies, and taking into account the duties of such person in the Company, his experience and performance as well as the prevailing market conditions. The proposed remuneration package of each executive director and senior management will include three components: basic annual salary, performance-linked annual bonus and performance-linked incentive bonus for the term of the position. The Company will disclose as and when appropriate once the proposed remuneration packages for such persons have been determined.

The proposed remuneration package of each of Mr. Cesareo Alierta Izuel and Mr. Chung Shui Ming Timpson includes an annual fee of HKD300,000 for being a non-executive director. Furthermore, the proposed remuneration package of Mr. Chung Shui Ming Timpson also includes an annual fee of HKD70,000, HKD20,000 and HKD20,000 for being a member of the Audit Committee, the Remuneration Committee and the Nomination Committee, respectively. The proposed remuneration package of each of Mr. Cesareo Alierta Izuel and Mr. Chung Shui Ming Timpson has been determined with reference to his 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 and that there is no 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. Chung Shui Ming Timpson, a Director for Re-Election) are currently independent.

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

As at 31 December 2014, 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 – 4. 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 by the Directors and the chief executive of the Company as at 31 December 2014 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 2014 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 2014, none of the Directors and 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 the service agreements between the Company and the executive directors, as at 31 December 2014, 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 42 to 43 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.

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, 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. Zhang Junan, an Executive Director of the Company, has served as a Non-Executive Director of PCCW since August 2014.

Each of Telefónica, PCCW, HKT Limited and HKT Management Limited, 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 2014 up to and including the date of this annual report.

EMOLUMENTS OF THE DIRECTORS

Please refer to Note 31 to the financial statements for details of the emoluments of the Directors.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2014, the Group had approximately 228,270 employees, 250 employees and 100 employees in Mainland China, Hong Kong and other countries, respectively. Furthermore, the Group had approximately 52,800 temporary staff in Mainland China. For the year ended 31 December 2014, employee benefit expenses were approximately RMB34.652 billion (for the year ended 31 December 2013: RMB31.783 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, which are tailored in accordance with individual needs.

The Company has adopted share option schemes, under which the Company may grant share options to eligible employees for subscribing for the Company's shares.

CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

As at 31 December 2014, Unicom Group is the controlling shareholder of the Company and is therefore a connected person of the Company under the Listing Rules.

On 24 October 2013, China United Network Communications Corporation Limited ("CUCL") and Unicom Group entered into a comprehensive services agreement (the "2013 Comprehensive Services Agreement") to renew certain continuing connected transactions. Pursuant to the 2013 Comprehensive Services 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 2013 Comprehensive Services Agreement is valid for a term of three years starting from 1 January 2014 and expiring on 31 December 2016.

Details of the continuing connected transactions under the 2013 Comprehensive Services Agreement are as follows:

Agreement	Nature of Transactions	Consideration and Terms
(1) Telecommunications Resources Leasing	Unicom Group agrees to lease to CUCL: (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 (b) certain other telecommunications facilities required by CUCL for its operations.	The rental charges for the leasing of international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such resources and telecommunications facilities provided that such charges would not be higher than market rates. CUCL shall be responsible for the on-going maintenance of such international telecommunications resources. 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. CUCL and Unicom Group agree to settle the net rental charges and service charges due to Unicom Group on a quarterly basis. For the year ended 31 December 2014, the total charges paid by CUCL to Unicom Group amounted to approximately RMB271 million.

Agreement	Nature of Transactions	Consideration and Terms
(2) Property Leasing	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).	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. For the year ended 31 December 2014, the rental charges paid by CUCL to Unicom Group amounted to approximately RMB955 million, and the rental charges paid by Unicom Group to CUCL was negligible.
(3) Provision of Value-added Telecommunications Services	Unicom Group (or its subsidiaries) agrees to provide the customers of CUCL with various types of value-added telecommunications services.	CUCL 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. For the year ended 31 December 2014, the total revenue allocated to Unicom Group in relation to value-added telecommunications services amounted to approximately RMB51 million.

Agreement	Nature of Transactions	Consideration and Terms
(4) Provision of Materials Procurement Services	Unicom Group agrees to provide comprehensive procurement services for imported and domestic telecommunications materials and other domestic non-telecommunications materials to CUCL. Unicom Group also agrees to provide services on management of tenders, verification of technical specifications, installation, consulting and agency services. In addition, Unicom Group will sell cable, modem and other materials operated by itself to CUCL and will also provide storage and logistics services in relation to the above materials procurement.	Charges for the provision of materials procurement services are calculated at the rate of: (a) up to 3% of the contract value of those procurement contracts in the case of domestic materials procurement; and (b) up to 1% of the contract value of those procurement contracts in the case of imported materials procurement. The charges for the provision of materials operated by Unicom Group are determined by reference to the following pricing principles (the "Pricing Principles"): (a) the government fixed price; (b) where there is no government fixed price but a government guidance price exists, the government guidance price; (c) where there is neither a government fixed price nor a government guidance price, the market price; or (d) where none of the above is applicable, the price to be agreed between the parties and determined on a cost-plus basis. The charges for the provision of storage and logistics services are determined by reference to the market price, which is determined by reference to the following: (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. The service charges due to Unicom Group will be settled on a monthly basis. For the year ended 31 December 2014, the total charges paid by CUCL to Unicom Group amounted to approximately RMB91 million.

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.	The charges for the provision of engineering design and construction services are determined by reference to the market price, which is determined by reference to the following: (a) the price charged by an independent third party providing the services in the same or nearby location in an ordinary business transaction; or (b) the price charged by an independent third party providing the services in mainland China in an ordinary business transaction. The service charges will be settled between CUCL and Unicom Group as and when the relevant services are provided. For the year ended 31 December 2014, the total charges paid by CUCL to Unicom Group amounted to approximately RMB3,138 million.
(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.	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. For the year ended 31 December 2014, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB2,111 million.

Agreement	Nature of Transactions	Consideration and Terms
(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 (excluding those facilities which are provided under the Telecommunications Resources Leasing 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 service 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. For the year ended 31 December 2014, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB840 million, and the total services charges paid by Unicom Group to CUCL amounted to approximately RMB19 million.
(8) Provision of Shared Services	Unicom Group and CUCL agree to provide shared services to each other, including, but not limited to, the following: (a) CUCL will provide headquarter human resources services to Unicom Group; (b) Unicom Group and CUCL will provide central business support services to each other; (c) CUCL will provide trust services related to the services referred to in (a) and (b) above to Unicom Group; and (d) Unicom Group will provide premises to CUCL and other shared services requested by its headquarters. In relation to the 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. Unicom Group will provide support services, including telephone card production, development and related services, maintenance and technical support and management services in relation to the telecommunications card operational system.	Unicom Group and CUCL 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. For the year ended 31 December 2014, the total services charges paid by CUCL to Unicom Group amounted to approximately RMB119 million, and the services charges paid by Unicom Group to CUCL was negligible.

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 78 to 82 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.

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 2014. 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 2014.

CORPORATE GOVERNANCE REPORT

Report on the Company's corporate governance is set out in "Corporate Governance Report" on pages 49 to 64.

MATERIAL LEGAL PROCEEDINGS

For the year ended 31 December 2014, 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 2014.

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 ended 31 December 2014 and as at the date of this annual report.

DONATIONS

For the year ended 31 December 2014, the Group made charitable and other donations in an aggregate amount of approximately RMB15.54 million.

CLOSURE OF REGISTER OF MEMBERS

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

(1) from 6 May 2015 to 8 May 2015, 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 8 May 2015 (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 5 May 2015; and

(2) from 15 May 2015, for the purpose of ascertaining the shareholders' entitlement to the 2014 Final Dividend. In order to qualify for the proposed 2014 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 14 May 2015. Subject to the approval by shareholders at the AGM, the 2014 Final Dividend is expected to be paid in Hong Kong dollars on or about 10 June 2015 to those members registered in the Company's register of members as at 15 May 2015 (the "Dividend Record Date").

WITHHOLDING AND PAYMENT OF ENTERPRISE INCOME TAX FOR NON-RESIDENT ENTERPRISES IN RESPECT OF 2014 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 2014 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 2014 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 2014 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 14 May 2015, 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.

The arrangement relating to withholding tax, if any, in respect of the 2014 Final Dividend to be paid by the Company to the investors of the Shanghai Stock Exchange who invest in the shares of the Company listed on the Main Board of the Stock Exchange of Hong Kong Limited will be finalised with the relevant PRC authorities prior to the payment of the 2014 Final Dividend.

INDEPENDENT AUDITOR

At the close of the 2013 annual general meeting of the Company held on 21 May 2013, PricewaterhouseCoopers retired as independent auditor of the Company upon expiration of its term of office. KPMG was then appointed as the independent auditor of the Company. KPMG has audited the accompanying financial statements.

A resolution will be submitted by the Board at the 2015 annual general meeting to re-appoint KPMG as the Company's independent auditor for the year ending 31 December 2015.

By Order of the Board
Chang Xiaobing
Chairman and Chief Executive Officer

Hong Kong, 3 March 2015

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 8 May 2015 at 10:00 a.m. at Ballroom C, 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 2014.

2. To declare a final dividend for the year ended 31 December 2014.

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 2015.

4. To re-appoint Auditor, and to authorise the Board of Directors to fix their remuneration for the year ending 31 December 2015.

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 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 Buy-backs and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as amended from time to time be and is hereby generally and unconditionally approved;

(B) the aggregate number 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 total number of the Shares 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 number of Shares 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 total number of Shares 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 number of Shares bought back by the Company subsequent to the passing of this Resolution (up to a maximum number equivalent to 10 per cent of the total number of Shares 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."

As Special Business, to consider and, if thought fit, to pass the following resolution as special resolution:

SPECIAL RESOLUTION

8. "**THAT** the adoption of the new Articles of Association of the Company in substitution for and to the exclusion to the existing Articles of Association of the Company in the manner set out in the section headed "Proposed Adoption of the New Articles of Association" in the circular of the Company dated 17 March 2015 be and are hereby approved.".

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

Hong Kong, 17 March 2015

Notes:

1. Any member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. The proxy needs 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 24 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/she is subsequently able to be present.

3. The Directors have recommended a final dividend for the year ended 31 December 2014 of RMB0.20 per share (the "2014 Final Dividend") and subject to the passing of the Resolution 2 above, the 2014 Final Dividend is expected to be paid in Hong Kong dollars on or about 10 June 2015 to those shareholders whose names appear on the Company's register of shareholders on 15 May 2015.

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

    (1) from 6 May 2015 to 8 May 2015, 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 5 May 2015; and

    (2) on 15 May 2015, for the purpose of ascertaining the shareholders' entitlement to the 2014 Final Dividend. In order to qualify the proposed 2014 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 14 May 2015.

5. In relation to the Ordinary Resolution set out in item 3 of the Notice, Mr. Chang Xiaobing, Mr. Zhang Junan, Mr. Cesareo Alierta Izuel and Mr. Chung Shui Ming Timpson 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 2014 annual report of the Company.

6. 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 buy back 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 buy-back 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 2014 annual report (the "Circular").

7. In relation to the Ordinary Resolution set out in item 8, a summary of the proposed new Articles of Association of the Company necessary to enable the shareholders to make an informed decision on whether to vote for or against the resolution to approve the adoption of the new Articles of Association of the Company, as required by the Listing Rules, will be set out in the Circular.

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.

KPMG

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 90 to 177, which comprise the consolidated and company balance sheets as at 31 December 2014, 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. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), 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 judgement, 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 the 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 2014 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.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

3 March 2015

CONSOLIDATED BALANCE SHEET

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

	Note	As at 31 December 2014	2013
ASSETS			
Non-current assets			
Property, plant and equipment	6	**438,321**	431,625
Lease prepayments	7	**9,211**	8,038
Goodwill	8	**2,771**	2,771
Interest in associates	12	**3,037**	–
Deferred income tax assets	9	**6,215**	6,734
Financial assets at fair value through other comprehensive income	10	**5,902**	6,497
Other assets	13	**23,041**	21,296
		488,498	476,961
Current assets			
Inventories and consumables	14	**4,378**	5,536
Accounts receivable	15	**14,671**	14,842
Prepayments and other current assets	16	**10,029**	9,664
Amounts due from related parties	40.1	**12**	11
Amounts due from domestic carriers		**2,120**	597
Short-term bank deposits	17	**56**	54
Cash and cash equivalents	18	**25,308**	21,506
		56,574	52,210
Total assets		**545,072**	529,171
EQUITY			
Equity attributable to equity shareholders of the Company			
Share capital		**179,101**	2,328
Share premium		**–**	175,204
Capital redemption reserve		**–**	79
Share capital and other statutory capital reserve	19	**179,101**	177,611
Other reserves	20	**(19,482)**	(19,529)
Retained profits			
– Proposed final dividend	38	**4,789**	3,805
– Others		**63,133**	57,012
Total equity		**227,541**	218,899

(All amounts in RMB millions)

	Note	As at 31 December 2014	2013
LIABILITIES			
Non-current liabilities			
Long-term bank loans	21	**420**	481
Promissory notes	22	**21,460**	–
Convertible bonds	23	**–**	11,002
Corporate bonds	24	**2,000**	2,000
Deferred income tax liabilities	9	**17**	26
Deferred revenue		**1,497**	1,269
Other obligations	25	**217**	255
		25,611	15,033
Current liabilities			
Short-term bank loans	26	**91,503**	94,422
Commercial papers	27	**9,979**	35,000
Current portion of long-term bank loans	21	**45**	48
Convertible bonds	23	**11,167**	–
Accounts payable and accrued liabilities	28	**120,371**	102,212
Taxes payable		**1,466**	2,634
Amounts due to ultimate holding company	40.1	**1,622**	1,634
Amounts due to related parties	40.1	**3,542**	4,176
Amounts due to domestic carriers		**1,402**	1,504
Dividend payable		**771**	644
Current portion of deferred revenue		**462**	452
Current portion of other obligations	25	**2,698**	2,672
Advances from customers		**46,892**	49,841
		291,920	295,239
Total liabilities		**317,531**	310,272
Total equity and liabilities		**545,072**	529,171
Net current liabilities		**(235,346)**	(243,029)
Total assets less current liabilities		**253,152**	233,932

The notes on pages 100 to 177 are an integral part of these consolidated financial statements.

Approved and authorised for issue by the Board of Directors on 3 March 2015 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 2014	2013
ASSETS			
Non-current assets			
Property, plant and equipment	6	**16**	20
Investments in subsidiaries	11(a)	**159,798**	159,789
Loan to a subsidiary	11(b)	**35,700**	34,674
Deferred income tax assets	9	**1,133**	959
Financial assets at fair value through other comprehensive income	10	**5,706**	6,400
		202,353	201,842
Current assets			
Loans to subsidiaries	11(b)	**17,344**	69
Amounts due from subsidiaries	11(c)	**4,716**	4,673
Dividend receivable		**37,773**	26,038
Prepayments and other current assets	16	**6**	26
Cash and cash equivalents	18	**1,852**	966
		61,691	31,772
Total assets		**264,044**	233,614
EQUITY			
Equity attributable to equity shareholders of the Company			
Share capital		**179,101**	2,328
Share premium		**–**	175,204
Capital redemption reserve		**–**	79
Share capital and other statutory capital reserve	19	**179,101**	177,611
Other reserves	20	**(3,716)**	(2,555)
Retained profits			
– Proposed final dividend	38	**4,789**	3,805
– Others		**4,429**	3,732
Total equity		**184,603**	182,593

(All amounts in RMB millions)

	Note	As at 31 December 2014	2013
LIABILITIES			
Non-current liabilities			
Loan from a subsidiary	11(b)	**–**	11,108
Promissory notes		**6,487**	–
		6,487	11,108
Current liabilities			
Short-term bank loans	26	**52,978**	38,249
Accounts payable and accrued liabilities	28	**898**	675
Loans from subsidiaries	11(b)	**11,201**	23
Amounts due to a related party	40.1(b)	**481**	–
Amounts due to subsidiaries	11(c)	**6,388**	167
Taxes payable		**235**	155
Dividend payable	38	**773**	644
		72,954	39,913
Total liabilities		**79,441**	51,021
Total equity and liabilities		**264,044**	233,614
Net current liabilities		**(11,263)**	(8,141)
Total assets less current liabilities		**191,090**	193,701

The notes on pages 100 to 177 are an integral part of this financial statement.

Approved and authorised for issue by the Board of Directors on 3 March 2015 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)

		Year ended 31 December	
	Note	**2014**	2013
Revenue	29	**284,681**	295,038
Interconnection charges		**(14,599)**	(20,208)
Depreciation and amortisation		**(73,868)**	(68,196)
Network, operation and support expenses	30	**(37,851)**	(33,704)
Employee benefit expenses	31	**(34,652)**	(31,783)
Costs of telecommunications products sold	32	**(43,397)**	(63,416)
Other operating expenses	33	**(61,411)**	(61,964)
Finance costs	34	**(4,617)**	(3,113)
Interest income		**283**	173
Other income – net	36	**1,362**	887
Profit before income tax		**15,931**	13,714
Income tax expenses	9	**(3,876)**	(3,306)
Profit for the year		**12,055**	10,408
Profit attributable to:			
Equity shareholders of the Company		**12,055**	10,408
Earnings per share for profit attributable to equity shareholders of the Company during the year:			
Basic earnings per share (RMB)	39	**0.51**	0.44
Diluted earnings per share (RMB)	39	**0.49**	0.43

Details of dividends attributable to equity shareholders of the Company for the years ended 31 December 2014 and 2013 are set out in Note 38.

The notes on pages 100 to 177 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in RMB millions)

	Year ended 31 December	
	2014	2013
Profit for the year	**12,055**	10,408
Other comprehensive income		
Items that will not be reclassified to statement of income:		
Changes in fair value of financial assets through other comprehensive income	**(619)**	930
Tax effect on changes in fair value of financial assets through other comprehensive income	**155**	(240)
Changes in fair value of financial assets through other comprehensive income, net of tax	**(464)**	690
Remeasurement of net defined benefit liability, net of tax	**(2)**	(2)
	(466)	688
Item that may be reclassified subsequently to statement of income:		
Currency translation differences	**(12)**	(18)
Other comprehensive income for the year, net of tax	**(478)**	670
Total comprehensive income for the year	**11,577**	11,078
Total comprehensive income attributable to:		
Equity shareholders of the Company	**11,577**	11,078

The notes on pages 100 to 177 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB millions)

	Attributable to equity shareholders of the Company									
	Share capital	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Investment revaluation reserve	Statutory reserves	Convertible bonds reserve	Other reserve	Retained profits	Total Equity
Balance at 1 January 2013	2,311	173,473	79	651	(4,453)	25,752	572	(43,110)	54,230	209,505
Total comprehensive income for the year	–	–	–	–	690	–	–	(20)	10,408	11,078
Appropriation to statutory reserves	–	–	–	–	–	988	–	–	(988)	–
Equity-settled share option schemes:										
– Value of employee services	–	–	–	50	–	–	–	–	–	50
– Issuance of shares upon exercise of options	17	1731	–	(360)	–	–	–	(286)	–	1,102
– Transfer between reserves upon lapsing of options	–	–	–	(3)	–	–	–	–	3	–
Dividends relating to 2012	–	–	–	–	–	–	–	–	(2,836)	(2,836)
Balance at 31 December 2013	2,328	175,204	79	338	(3,763)	26,740	572	(43,416)	60,817	218,899
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(464)**	**-**	**-**	**(14)**	**12,055**	**11,577**
Appropriation to statutory reserves	**-**	**-**	**-**	**-**	**-**	**1,166**	**-**	**-**	**(1,166)**	**-**
Equity-settled share option schemes under the predecessor Hong Kong Companies Ordinance:										
– Issuance of shares upon exercise of options	**-**	**19**	**-**	**(4)**	**-**	**-**	**-**	**(3)**	**-**	**12**
Transition to no-par value regime on 3 March 2014 (Note 19)	**175,302**	**(175,223)**	**(79)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Equity-settled share option schemes under the new Hong Kong Companies Ordinance:										
– Issuance of shares upon exercise of options	**1,471**	**-**	**-**	**(283)**	**-**	**-**	**-**	**(329)**	**-**	**859**
– Transfer between reserves upon lapsing of options	**-**	**-**	**-**	**(22)**	**-**	**-**	**-**	**-**	**22**	**-**
Dividends relating to 2013 (Note 38)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,806)**	**(3,806)**
Balance at 31 December 2014	**179,101**	**-**	**-**	**29**	**(4,227)**	**27,906**	**572**	**(43,762)**	**67,922**	**227,541**

The notes on pages 100 to 177 are an integral part of these consolidated financial statements.

(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 2013	2,311	173,473	79	1,269	(4,516)	572	5,289	178,477
Total comprehensive income for the year	–	–	–	–	719	–	5,081	5,800
Equity-settled share option schemes:								
– Value of employee services	–	–	–	50	–	–	–	50
– Issuance of shares upon exercise of options	17	1,731	–	(646)	–	–	–	1,102
– Transfer between reserves upon lapsing of options	–	–	–	(3)	–	–	3	–
Dividends relating to 2012	–	–	–	–	–	–	(2,836)	(2,836)
Balance at 31 December 2013	2,328	175,204	79	670	(3,797)	572	7,537	182,593
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(520)**	**–**	**5,465**	**4,945**
Equity-settled share option schemes under the predecessor Hong Kong Companies Ordinance:								
– Issuance of shares upon exercise of options	**–**	**19**	**–**	**(7)**	**–**	**–**	**–**	**12**
Transition to no-par value regime on 3 March 2014 (Note 19)	**175,302**	**(175,223)**	**(79)**	**–**	**–**	**–**	**–**	**–**
Equity-settled share option schemes under the new Hong Kong Companies Ordinance:								
– Issuance of shares upon exercise of options	**1,471**	**–**	**–**	**(612)**	**–**	**–**	**–**	**859**
– Transfer between reserves upon lapsing of options	**–**	**–**	**–**	**(22)**	**–**	**–**	**22**	**–**
Dividends relating to 2013 (Note 38)	**–**	**–**	**–**	**–**	**–**	**–**	**(3,806)**	**(3,806)**
Balance at 31 December 2014	**179,101**	**–**	**–**	**29**	**(4,317)**	**572**	**9,218**	**184,603**

The notes on pages 100 to 177 are an integral part of this financial statement.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in RMB millions)

	Note	Year ended 31 December 2014	2013
Cash flows from operating activities			
Cash generated from operations	(a)	**97,062**	86,610
Interest received		**283**	173
Interest paid		**(4,631)**	(5,082)
Income tax paid		**(4,620)**	(3,219)
Net cash inflow from operating activities		**88,094**	78,482
Cash flows from investing activities			
Purchase of property, plant and equipment		**(69,586)**	(72,758)
Proceeds from disposal of property, plant and equipment and other assets		**797**	1,544
Dividends received from financial assets at fair value through other comprehensive income		**353**	176
Increase in short-term bank deposits		**(1)**	(22)
Purchase of other assets		**(3,807)**	(6,050)
Acquisition of interest in associates		**(3,075)**	–
Net cash outflow from investing activities		**(75,319)**	(77,110)
Cash flows from financing activities			
Proceeds from exercise of share options		**871**	1,102
Proceeds from commercial papers		**19,885**	49,938
Proceeds from short-term bank loans		**158,259**	135,713
Proceeds from ultimate holding company loan		**–**	1,344
Proceeds from related party loan		**473**	–
Proceeds from promissory notes		**21,430**	–
Repayment of commercial papers		**(45,000)**	(53,000)
Repayment of short-term bank loans		**(161,007)**	(109,500)
Repayment of long-term bank loans		**(46)**	(850)
Repayment of corporate bonds		**–**	(5,000)
Repayment of promissory notes		**–**	(15,000)
Repayment of capital element of finance lease		**(161)**	(135)
Dividends paid to equity shareholders of the Company	38	**(3,677)**	(2,686)
Net cash (outflow)/inflow from financing activities		**(8,973)**	1,926
Net increase in cash and cash equivalents		**3,802**	3,298
Cash and cash equivalents, beginning of year		**21,506**	18,250
Effect of changes in foreign exchange rate		**–**	(42)
Cash and cash equivalents, end of year	18	**25,308**	21,506
Analysis of the balances of cash and cash equivalents:			
Cash balances		**3**	3
Bank balances		**25,305**	21,503
		25,308	21,506

The notes on pages 100 to 177 are an integral part of these consolidated financial statements.

(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	
	2014	2013
Profit before income tax	**15,931**	13,714
Adjustments for:		
Depreciation and amortisation	**73,868**	68,196
Interest income	**(283)**	(173)
Finance costs	**4,113**	2,963
Loss/(Gain) on disposal of property, plant and equipment and other assets	**1,064**	(49)
Share-based compensation costs	**–**	50
Impairment losses for doubtful debts and write-down of inventories	**3,958**	4,219
Impairment losses for property, plant and equipment	**65**	129
Dividends from financial assets at fair value through other comprehensive income	**(353)**	(176)
Other investment loss	**28**	–
Changes in working capital:		
Increase in accounts receivable	**(2,927)**	(4,911)
Decrease/(Increase) in inventories and consumables	**675**	(130)
Increase in other assets	**(1,897)**	(4,460)
Increase in prepayments and other current assets	**(211)**	(201)
(Increase)/Decrease in amounts due from related parties	**(1)**	7
(Increase)/Decrease in amounts due from domestic carriers	**(1,523)**	141
Increase in accounts payable and accrued liabilities	**5,451**	533
Increase in taxes payable	**2,068**	227
(Decrease)/Increase in advances from customers	**(2,949)**	7,496
Increase/(Decrease) in deferred revenue	**238**	(420)
Increase/(Decrease) in other obligations	**22**	(18)
Decrease in amounts due to ultimate holding company	**(12)**	(277)
Decrease in amounts due to related parties	**(161)**	(591)
(Decrease)/Increase in amounts due to domestic carriers	**(102)**	341
Cash generated from operations	**97,062**	86,610

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 the 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, TD-LTE cellular voice, LTE FDD 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 Depositary 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"). 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.

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

The 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. The financial statements also comply with HKFRSs as well as the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK ("Listing Rules") and the requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap.32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap.622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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 financial statements. The principal adjustments made to the PRC financial statements to conform to IFRSs/HKFRSs include the following:

- reversal of the revaluation surplus or deficit and related amortisation charges arising from the revaluation of prepayments for the leasehold land 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 the above adjustments.

(a) Going Concern Assumption

As at 31 December 2014, current liabilities of the Group exceeded current assets by approximately RMB235.3 billion (2013: approximately RMB243.0 billion). Given the current global economic conditions and the Group's expected capital expenditure 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 RMB361.6 billion of revolving banking facilities and registered quota of commercial papers, promissory notes and corporate bonds, of which approximately RMB235.3 billion was unutilised as at 31 December 2014; 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 2014 have been prepared on a going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Preparation (Continued)

(b) Critical Accounting Estimates and Judgment

The preparation of the consolidated financial statements in conformity with IFRSs/HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs/HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 4.

(c) New Accounting Standards, Amendments and Interpretations Pronouncements

(i) The following amendments to standards and one new Interpretation are mandatory for the first time for the financial year beginning 1 January 2014 and are applicable to the Group:

- Amendments to IAS/HKAS 32, "Offsetting financial assets and financial liabilities"
  The amendments to IAS/HKAS 32 clarify the offsetting criteria in IAS/HKAS 32. The amendments do not have an impact on the Group's consolidated financial statements as they are consistent with the policies already adopted by the Group.

- Amendments to IAS/HKAS 36, "Recoverable amount disclosures for non-financial assets"
  The amendments to IAS/HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash generating unit whose recoverable amount is based on fair value less costs of disposal. The adoption of the amendments to IAS/HKAS 36 did not have any material impact on the Group's consolidated financial statements.

- IFRIC/HK(IFRIC) 21, "Levies"
  The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on the Group's consolidated financial statements as the guidance is consistent with the Group's existing accounting policies.

(All amounts in RMB millions unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Basis of Preparation (Continued)

(c) New Accounting Standards, Amendments and Interpretations Pronouncements (Continued)

(ii) Up to the date of issue of these financial statements, the IASB and HKICPA issued certain amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements except IFRS/HKFRS 9 "Financial instruments" was early adopted by the Group on 1 January 2011. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to IAS/HKAS 19, "Defined benefit plans: Employee Contributions"	1 July 2014
Annual improvements to IFRSs/HKFRSs 2010-2012 cycle	1 July 2014
Annual improvements to IFRSs/HKFRSs 2011-2013 cycle	1 July 2014
Amendments to IFRS/HKFRS 11, "Accounting for Acquisitions of Interests in Joint Operations"	1 January 2016
Amendments to IAS/HKAS 16 and IAS/HKAS 38, "Clarification of Acceptable Methods of Depreciation and Amortisation"	1 January 2016
IFRS /HKFRS 15, "Revenue from Contracts with Customer"	1 January 2017

The Group will adopt the relevant amendments and new standards in the subsequent periods as required. The Group is in the process of making an assessment of what the impact of these amendments and new standards are expected to be in the period of initial application.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap.622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Hong Kong Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

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 entities controlled by the Group. The Group controls an entity when it is exposed, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Consolidation (Continued)

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 was recorded as goodwill. If the cost of acquisition was 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.

Under HKFRSs, business combination of entity and business under common control of the Group after 2005 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 in 2005. 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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment. The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of income, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised as other comprehensive income in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

2.5 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)

2.6 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 in other comprehensive income and 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.

2.7 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 its intended use. When the asset being constructed becomes available for use, the CIP is transferred to the appropriate category of assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 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 other equipment. 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 other equipment	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 2.12).

(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)

2.8 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 synergies of business combination in which the goodwill arose.

2.9 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.

2.10 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 broadband 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 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 broadband subscribers mainly include the costs of installing broadband terminals at customer's homes for the provision of broadband service. Such costs are amortised over the service period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 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 flow 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.

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 sales 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)

2.12 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 impairment losses were previously recognised are reviewed for possible reversal of the impairment at each reporting date.

2.13 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.

2.14 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.

2.15 Accounts Receivable and Other Receivables

Accounts receivable and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for doubtful debts (see note 2.13), except where the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for doubtful debts.

Accounts receivable are amounts due from customers for services performed in the ordinary course of business. Other receivables are amounts due from the sales of mobile handsets and other operating activities. 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.

2.16 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 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.

2.18 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.

2.19 Deferred Revenue, Advances from Customers and Subscriber Points Reward Program

(a) Deferred revenue

Deferred revenue mainly represents upfront non-refundable fee, including installation fees of fixed-line 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 mainly 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 points reward program

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

2.20 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)

2.21 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 equity shareholders of the Company and no gain or loss shall be recognised in the statement of income.

2.22 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 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) Supplementary benefits

In addition to participating in local governmental defined contribution social insurance, subsidiaries of the Group also provide other post retirement supplementary benefits to their employees, including supplementary pension allowance, reimbursement of medical expenses and supplementary medical insurance. These post retirement supplementary benefits are accounted as defined benefit plan. The present value of the defined benefit obligation is included in non-current other obligations and salary and welfare payables (current portion). The liability is remeasured with sufficient regularity and the movement of the remeasurement is recognised in other comprehensive income, which is not allowed to reverse to profit and loss in subsequent period. As at 31 December 2014, the amount of the liability was RMB105 million (2013: RMB106 million).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Employee Benefits (Continued)

(e) 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 equity amount is recognised in the employee share-based compensation reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

2.23 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.

2.24 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.

2.25 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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Revenue Recognition (Continued)

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;

- Interconnection fees represent revenue received or receivable from other domestic and foreign telecommunications operators for the use of the Group's telecommunications network, is recognised when service is rendered;

- 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;

- 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 sales of mobile handsets 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 the telecommunications service. 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.

2.26 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Dividend income

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

2.28 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 assets 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.

2.29 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.30 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 recognised as deferred income tax. 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.

2.31 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.

2.32 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.32 Contingent Liabilities and Contingent Assets (Continued)

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.

2.33 Earnings per Share

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

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

2.34 Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

   (i) has control or joint control over the Group;

   (ii) has significant influence over the Group; or

   (iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

   (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

   (iii) Both entities are joint ventures of the same third party;

   (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

   (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.34 Related parties (Continued)

(b) An entity is related to the Group if any of the following conditions applies: (continued)

(vi) The entity is controlled or jointly controlled by a person identified in (a); or

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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 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 headquarter, 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.

(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 headquarter 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 2014 and 2013, the Group had not entered into any forward exchange contracts or currency swap contracts.

(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

The following table details the Group's and the Company's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate and have been translated to RMB at the applicable rates quoted by the People's Bank of China as at 31 December 2014 and 2013.

	The Group					
	2014			2013		
	Original currency millions	Exchange rate	RMB equivalent millions	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
– denominated in HK dollars	1,286	0.79	1,016	794	0.79	627
– denominated in US dollars	107	6.12	657	106	6.10	646
– denominated in Euro	5	7.46	39	2	8.42	14
– denominated in Japanese Yen	44	0.05	2	33	0.06	2
– denominated in GBP	1.2	9.54	11	0.1	10.06	1
Sub-total			1,725			1,290
Financial assets at fair value through other comprehensive income:						
– denominated in Euro	765	7.46	5,706	760	8.42	6,400
Total			7,431			7,690
Borrowings:						
– denominated in HK dollars	62,686	0.79	49,452	48,650	0.79	38,249
– denominated in US dollars	54	6.12	329	58	6.10	351
– denominated in Euro	18	7.46	136	21	8.42	178
Sub-total			49,917			38,778
Convertible bonds:						
– denominated in US dollars	1,825	6.12	11,167	1,804	6.10	11,002
Obligations under finance lease:						
– denominated in US dollars	47	6.12	286	52	6.10	317
Total			61,370			50,097

(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

	The Company					
	2014			2013		
	Original currency millions	Exchange rate	RMB equivalent millions	Original currency millions	Exchange rate	RMB equivalent millions
Cash and cash equivalents:						
– denominated in HK dollars	1,285	0.79	1,014	793	0.79	623
– denominated in US dollars	66	6.12	405	38	6.10	230
– denominated in Euro	3	7.46	19	0.3	8.42	3
– denominated in Japanese Yen	44	0.05	2	34	0.06	2
– denominated in GBP	1	9.54	10	–	10.06	–
Sub-total			1,450			858
Financial assets at fair value through other comprehensive income:						
– denominated in Euro	765	7.46	5,706	760	8.42	6,400
Total			7,156			7,258
Borrowings:						
– denominated in HK dollars	62,686	0.79	49,452	48,650	0.79	38,249
Total			49,452			38,249

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.

As at 31 December 2014, if the RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars, Euro, Japanese Yen and GBP, while all other variables are held constant, the effect on profit after tax would be approximately RMB4,473 million (2013: approximately RMB3,661 million) for cash and cash equivalents, borrowings, convertible bonds and obligations under finance lease included in other obligations denominated in foreign currencies, and the effect on other comprehensive income, net of tax impact, would be approximately RMB428 million (2013: approximately RMB480 million) for financial assets denominated in foreign currency, which were recorded in fair value through other comprehensive income.

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(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 2014, if the share price of Telefónica had increased/decreased by 10%, while the exchange rate of RMB against Euro is held constant, the effect on other comprehensive income, net of tax impact, would be approximately RMB428 million (2013: approximately RMB480 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.

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 upon renewal. The Group determines the amount of its fixed rate or floating rate borrowings depending on the prevailing market conditions. During 2014 and 2013, 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 2014 and 2013.

As at 31 December 2014, the Group had approximately RMB103,586 million (2013: approximately RMB131,252 million) of floating rate borrowings and short-term fixed rate borrowings and approximately RMB35,091 million (2013: approximately RMB13,362 million) of long-term fixed rate borrowings.

For the year ended 31 December 2014, if interest rates on the floating rate borrowings and short-term fixed rate borrowings had increased/decreased 50 basic points while all other variables are held constant, the effect on profit after tax is approximately RMB388 million (2013: approximately RMB492 million).

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

3.1 Financial risk factors (Continued)

(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.

To limit exposure to credit risk relating to cash and cash equivalents and short-term bank deposits, the Group primarily places cash and cash equivalents and short-term bank deposits only with large state-owned financial institutions in the PRC and other banks with acceptable credit ratings. Therefore, the Group expects that there is no significant credit risk and 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 attributable to accounts receivable for services (Note 15) and receivable for the sales of mobile handsets (Note 16). The Group has policies to limit the credit exposure on receivables for services and the sales of mobile handsets. 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. For corporate customers, the credit period granted by the Group is based on the service contract terms, normally not exceeding 1 year. The utilisation of credit limits and the settlement pattern of the customers are regularly monitored by the Group. In respect of other receivables, individual credit evaluations are performed on all counterparties requiring credit over a certain amount. These evaluations focus on the counterparties' past history of making payments when due and current ability to pay, and take into account information specific to the counterparties as well as the economic environment in which the counterparties operates.

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.

(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

3.1 Financial risk factors (Continued)

(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 headquarter maintains flexibility in funding through having adequate amount of cash and cash equivalents and utilising different sources of financing when necessary.

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	Over 5 years	Carrying amounts
At 31 December 2014					
Long-term bank loans	**49**	**45**	**142**	**246**	**420**
Corporate bonds	**90**	**90**	**2,039**	**–**	**2,000**
Promissory notes	**975**	**3,433**	**19,445**	**–**	**21,460**
Other obligations	**2,706**	**89**	**69**	**65**	**2,915**
Accounts payable and accrued liabilities	**120,371**	**–**	**–**	**–**	**120,371**
Amounts due to related parties	**3,548**	**–**	**–**	**–**	**3,542**
Amounts due to ultimate holding company	**1,655**	**–**	**–**	**–**	**1,622**
Amounts due to domestic carriers	**1,402**	**–**	**–**	**–**	**1,402**
Convertible bonds	**11,319**	**–**	**–**	**–**	**11,167**
Commercial papers	**10,243**	**–**	**–**	**–**	**9,979**
Short-term bank loans	**92,889**	**–**	**–**	**–**	**91,503**
	245,247	**3,657**	**21,695**	**311**	**266,381**
At 31 December 2013					
Long-term bank loans	53	51	148	302	481
Corporate bonds	90	90	2,129	–	2,000
Convertible bonds	84	11,278	–	–	11,002
Other obligations	2,676	117	90	65	2,927
Accounts payable and accrued liabilities	102,212	–	–	–	102,212
Amounts due to related parties	4,176	–	–	–	4,176
Amounts due to ultimate holding company	1,665	–	–	–	1,634
Amounts due to domestic carriers	1,504	–	–	–	1,504
Commercial papers	35,406	–	–	–	35,000
Short-term bank loans	95,628	–	–	–	94,422
	243,494	11,536	2,367	367	255,358

(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (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	Carrying amounts
At 31 December 2014						
Short-term bank loans		**53,668**	**–**	**–**	**–**	**52,978**
Amounts due to subsidiaries		**6,388**	**–**	**–**	**–**	**6,388**
Loans from subsidiaries		**11,370**	**–**	**–**	**–**	**11,201**
Amounts due to a related party		**487**	**–**	**–**	**–**	**481**
Financial guarantee for a subsidiary	41.4	**11,319**	**–**	**–**	**–**	**11,167**
		83,232	**–**	**–**	**–**	**82,215**
At 31 December 2013						
Short-term bank loans		38,583	–	–	–	38,249
Amounts due to subsidiaries		167	–	–	–	167
Loans from subsidiaries		233	11,276	–	–	11,131
Financial guarantee for a subsidiary	41.4	84	11,278	–	–	11,002
		39,067	22,554	–	–	60,549

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

(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

3.2 Capital risk management (Continued)

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, and certain amounts due to ultimate holding company, as shown in the consolidated balance sheet. Total equity represents equity attributable to equity shareholders of the Company as shown in the consolidated balance sheet.

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

	2014	2013
Interest-bearing debts:		
– Commercial papers	**9,979**	35,000
– Short-term bank loans	**91,503**	94,422
– Long-term bank loans	**420**	481
– Promissory notes	**21,460**	–
– Convertible bonds	**11,167**	11,002
– Corporate bonds	**2,000**	2,000
– Obligations under finance lease included in other obligations	**118**	156
– Amounts due to a related party	**473**	–
– Amounts due to ultimate holding company	**1,344**	1,344
– Current portion of long-term bank loans	**45**	48
– Current portion of obligations under finance lease	**168**	161
	138,677	144,614
Total equity:		
– Equity attributable to equity shareholders of the Company	**227,541**	218,899
Interest-bearing debts plus total equity	**366,218**	363,513
Debt-to-capitalisation ratio	**37.9%**	39.8%

The decrease in debt-to-capitalisation ratio during 2014 resulted primarily from the decrease in interest-bearing debts and the increase in the equity attributable to equity shareholders of the Company.

(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

3.3 Fair value estimation

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, receivable for the sales of mobile handsets, 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.

(a) Financial assets and liabilities measured at fair value

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

- Level 1 valuation: unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

- Level 2 valuation: observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs for which market data are not available

- Level 3 valuation: fair value measured using significant unobservable inputs

The following table presents the Group's assets that are measured at fair value at 31 December 2014:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
– Equity securities				
– Listed	**5,879**	**–**	**–**	**5,879**
– Unlisted	**–**	**–**	**23**	**23**
	5,879	**–**	**23**	**5,902**
Prepayments and other current assets				
– Equity securities				
– Listed	**13**	**–**	**–**	**13**
Total	**5,892**	**–**	**23**	**5,915**

The following table presents the Group's assets that are measured at fair value at 31 December 2013:

	Level 1	Level 2	Level 3	Total
Recurring fair value measurement:				
Financial assets at fair value through other comprehensive income				
– Equity securities				
– Listed	6,497	–	–	6,497

(All amounts in RMB millions unless otherwise stated)

3. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

3.3 Fair value estimation (Continued)

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 2014 and 2013, there were no transfer between Level 1 and Level 2, or transfer into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(b) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at amortised cost are not materially different from their fair values as at 31 December 2014 and 2013. Their carrying amounts, fair values and the level of fair values hierarchy are disclosed below:

	Carrying amounts as at 31 December 2014	Fair values as at 31 December 2014	Fair value measurements as at 31 December 2014 categorised into			Carrying amounts as at 31 December 2013	Fair value as at 31 December 2013
			Level 1	Level 2	Level 3		
Non-current portion of long-term bank loans	**420**	**392**	**–**	**–**	**392**	481	434
Promissory notes	**21,460**	**21,924**	**–**	**–**	**21,924**	–	–
Corporate bonds	**2,000**	**2,045**	**–**	**–**	**2,045**	2,000	1,959
Convertible bonds	**11,167**	**11,183**	**–**	**–**	**11,183**	11,002	10,929

The fair value of the non-current portion of long-term bank loans is based on cash flows discounted using rates based on the market rates ranging from 2.34% to 3.23% (2013: 3.58% to 3.82%) per annum.

The fair value of the Group's promissory notes is computed based on the expected cash flows of principal and interests payment discounted at market rates ranging from 4.04% to 4.60% per annum.

The fair value of the convertible bonds is estimated as being the present values of future cash flows, discounted at interest rates based on the government bond yield curve as at 31 December 2014 plus an adequate constant credit spread, adjusted for the Group's own credit risk.

The fair value of the corporate bonds is based on cash flows discounted using rates based on the market rate of 4.60% (2013: 6.01%) per annum.

Besides, the carrying amounts of the Group's other financial assets and liabilities carried at amortised cost approximated their fair values as at 31 December 2014 and 2013 due to the nature or short maturity of those instruments.

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.

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.

4.1 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.

4.2 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 2.12. 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 2014 and 2013.

4.3 Write-down of inventories

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

4.4 Allowance for doubtful debts

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

4.5 Subscriber points reward program

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

4.6 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.

For temporary differences which give rise to deferred tax assets, the Group assesses 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 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 allowance for doubtful debts. Due to the effects of these temporary differences on income tax, the Group has recorded deferred tax assets amounting to approximately RMB6,215 million as at 31 December 2014 (2013: approximately RMB6,734 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.

(All amounts in RMB millions unless otherwise stated)

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.

The CODM 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.

6. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment for the years ended 31 December 2014 and 2013 are as follows:

	The Group					
	2014					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of year	64,915	848,445	18,669	3,930	59,096	995,055
Additions	108	184	350	336	82,263	83,241
Transfer from CIP	3,848	72,445	1,004	614	(77,911)	–
Transfer to other asset	–	–	–	–	(4,704)	(4,704)
Disposals	(103)	(38,240)	(915)	(451)	(5)	(39,714)
End of year	68,768	882,834	19,108	4,429	58,739	1,033,878
Accumulated depreciation and impairment:						
Beginning of year	(24,241)	(524,392)	(12,704)	(1,969)	(124)	(563,430)
Charge for the year	(3,193)	(64,407)	(1,587)	(818)	–	(70,005)
Impairment loss	–	(10)	–	–	(55)	(65)
Disposals	95	36,515	880	448	5	37,943
End of year	(27,339)	(552,294)	(13,411)	(2,339)	(174)	(595,557)
Net book value:						
End of year	41,429	330,540	5,697	2,090	58,565	438,321
Beginning of year	40,674	324,053	5,965	1,961	58,972	431,625

(All amounts in RMB millions unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	The Group					
	2013					
	Buildings	Tele-communications equipment	Office furniture, fixtures, motor vehicles and other equipment	Leasehold improvements	CIP	Total
Cost:						
Beginning of year	60,774	770,422	45,236	3,296	61,915	941,643
Reclassification	–	27,819	(27,819)	–	–	–
Additions	253	346	340	428	71,721	73,088
Transfer from CIP	4,074	62,769	1,152	627	(68,622)	–
Transfer to other assets	–	–	–	–	(5,883)	(5,883)
Disposals	(186)	(12,911)	(240)	(421)	(35)	(13,793)
End of year	64,915	848,445	18,669	3,930	59,096	995,055
Accumulated depreciation and impairment:						
Beginning of year	(21,318)	(451,596)	(36,063)	(1,653)	(16)	(510,646)
Reclassification	–	(24,651)	24,651	–	–	–
Charge for the year	(3,003)	(59,788)	(1,523)	(737)	–	(65,051)
Impairment loss	–	–	–	–	(129)	(129)
Disposals	80	11,643	231	421	21	12,396
End of year	(24,241)	(524,392)	(12,704)	(1,969)	(124)	(563,430)
Net book value:						
End of year	40,674	324,053	5,965	1,961	58,972	431,625
Beginning of year	39,456	318,826	9,173	1,643	61,899	430,997

As at 31 December 2014, the net book value of assets held under finance leases was approximately RMB368 million (2013: approximately RMB334 million).

For the year ended 31 December 2014, interest expense of approximately RMB825 million (2013: approximately RMB894 million) was capitalised to CIP. The capitalised borrowing rate represents the cost of capital for raising the related borrowings externally and varied from 3.72% to 4.30% for the year ended 31 December 2014 (2013: 3.87% to 4.47%).

For the year ended 31 December 2014, the Group recognised a loss on disposal of property, plant and equipment of approximately RMB1,064 million (2013: a gain of approximately RMB115 million).

(All amounts in RMB millions unless otherwise stated)

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

For the year ended 31 December 2013, as a result of a review on the assets categorisation, certain equipment was reclassified from "Office furniture, fixtures, motor vehicles and other equipment" to "Telecommunications equipment". This reclassification does not cause any changes in the estimated useful lives of those assets.

	The Company		
	Telecommunications equipment	Office furniture, fixtures, motor vehicles and other equipment	Total
Cost:			
At 1 January 2014	**50**	**7**	**57**
Transfer in	**–**	**2**	**2**
At 31 December 2014	**50**	**9**	**59**
Accumulated depreciation:			
At 1 January 2014	**(32)**	**(5)**	**(37)**
Charge for the year	**(3)**	**(1)**	**(4)**
Transfer in	**–**	**(2)**	**(2)**
At 31 December 2014	**(35)**	**(8)**	**(43)**
Net book value			
At 31 December 2014	**15**	**1**	**16**
Cost:			
At 1 January 2013	51	8	59
Additions	–	1	1
Disposals	(1)	(2)	(3)
At 31 December 2013	50	7	57
Accumulated depreciation:			
At 1 January 2013	(29)	(6)	(35)
Charge for the year	(4)	(1)	(5)
Disposals	1	2	3
At 31 December 2013	(32)	(5)	(37)
Net book value:			
At 31 December 2013	18	2	20

(All amounts in RMB millions unless otherwise stated)

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 Hong Kong. Their net book value is analysed as follows:

	The Group	
	2014	2013
Held on:		
Leases of between 10 to 50 years	**8,975**	7,668
Leases of less than 10 years	**236**	370
	9,211	8,038

For the year ended 31 December 2014, the long-term prepayment for land use rights expensed in the statement of income amounted to approximately RMB288 million (2013: approximately RMB257 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 service revenue annual growth rate of 4% 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 2014 and 2013 and no reasonable change to the assumptions would lead to an impairment charge.

(All amounts in RMB millions unless otherwise stated)

9. TAXATION

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 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 operate mainly in the PRC and the applicable statutory enterprise income tax rate is 25% (2013: 25%). Taxation for certain subsidiaries in the PRC was calculated at a preferential tax rate of 15% (2013: 15%).

		The Group	
	Note	**2014**	2013
Provision for income tax on the estimated taxable profits for the year			
– Hong Kong		**29**	29
– Outside Hong Kong		**3,201**	3,730
Adjustments to prior years' current tax outside Hong Kong	(i)	**(19)**	(20)
		3,211	3,739
Deferred taxation		**665**	(433)
Income tax expenses		**3,876**	3,306

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

		The Group	
	Note	**2014**	2013
Applicable PRC statutory tax rate		**25.0%**	25.0%
Non-deductible expenses		**0.6%**	0.8%
Effect of withholding income tax for interest receivable from inter-company loans		**0.2%**	0.2%
Adjustments to prior years' current tax	(i)	**(0.1%)**	(0.1%)
Non-taxable income		**–**	(0.1%)
Impact of different tax rate		**(0.6%)**	(0.7%)
Others		**(0.8%)**	(1.0%)
Effective tax rate		**24.3%**	24.1%

(i) This item included the difference resulted from prior years' accruals and actual settlement upon the completion of the tax filing during the year.

(All amounts in RMB millions unless otherwise stated)

9. TAXATION (CONTINUED)

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

	The Group	
	2014	2013
Deferred tax assets:		
– Deferred tax asset to be recovered after 12 months	**4,045**	4,189
– Deferred tax asset to be recovered within 12 months	**3,212**	2,893
	7,257	7,082
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	**(899)**	(348)
– Deferred tax liabilities to be settled within 12 months	**(143)**	–
	(1,042)	(348)
Net deferred tax assets after offsetting	**6,215**	6,734
Deferred tax liabilities:		
– Deferred tax liabilities to be settled after 12 months	**(17)**	(26)
– Deferred tax liabilities to be settled within 12 months	**–**	–
	(17)	(26)
Net deferred tax liabilities after offsetting	**(17)**	(26)

	The Company	
	2014	2013
Deferred tax assets:		
– Deferred tax asset to be recovered after 12 months	**1,443**	1,269
– Deferred tax asset to be recovered within 12 months	**–**	–
	1,443	1,269
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	**1,133**	959

(All amounts in RMB millions unless otherwise stated)

9. TAXATION (CONTINUED)

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

As at 31 December 2014, the Group did not recognise deferred tax assets in respect of tax losses incurred by Unicom New Horizon Telecommunications Company Limited of approximately RMB2,741 million (2013: approximately RMB4,730 million), since it is not probable that future taxable profits will be available against which the deferred tax asset can be utilised. The tax losses can be carried forward for five years from the year incurred and hence will be expired from 2015 to 2016.

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

	The Group	
	2014	2013
Net deferred tax assets after offsetting:		
– Beginning of year	**6,734**	6,534
– Deferred tax (charged)/credited to the statement of income	**(674)**	439
– Deferred tax credited/(charged) to other comprehensive income	**155**	(239)
– End of year	**6,215**	6,734
Net deferred tax liabilities after offsetting:		
– Beginning of year	**(26)**	(20)
– Deferred tax credited/(charged) to the statement of income	**9**	(6)
– End of year	**(17)**	(26)

	The Company	
	2014	2013
Net deferred tax assets after offsetting:		
– Beginning of year	**959**	1,221
– Deferred tax charged to the statement of income	**–**	(23)
– Deferred tax credited/(charged) to other comprehensive income	**174**	(239)
– End of year	**1,133**	959

(All amounts in RMB millions unless otherwise stated)

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						
Deferred tax assets:	Allowance for doubtful debts	Payroll and contributions to defined contribution pension schemes accrued but not paid	Unrecognised revaluation surplus on prepayments for the leasehold land 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	Total
At 1 January 2013	1,092	188	1,683	1,035	1,506	1,538	7,042
Credited/(charged) to the statement of income	75	244	(64)	52	–	(29)	278
(Charged)/credited to other comprehensive income	–	–	–	–	(239)	1	(238)
At 31 December 2013	1,167	432	1,619	1,087	1,267	1,510	7,082
Credited/(charged) to the statement of income	**128**	**448**	**(63)**	**(254)**	**–**	**(258)**	**1**
Credited to other comprehensive income	**–**	**–**	**–**	**–**	**174**	**–**	**174**
At 31 December 2014	**1,295**	**880**	**1,556**	**833**	**1,441**	**1,252**	**7,257**

	The Group					
Deferred tax liabilities:	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	Accelerated depreciation of property, plant and equipment	Others	Total
At 1 January 2013	(129)	(310)	(11)	–	(78)	(528)
Credited to the statement of income	108	–	–	–	47	155
Charged to other comprehensive income	–	–	(1)	–	–	(1)
At 31 December 2013	(21)	(310)	(12)	–	(31)	(374)
Credit/(charged) to the statement of income	**21**	**–**	**–**	**(696)**	**9**	**(666)**
Charged to other comprehensive income	**–**	**–**	**(19)**	**–**	**–**	**(19)**
At 31 December 2014	**–**	**(310)**	**(31)**	**(696)**	**(22)**	**(1,059)**

(All amounts in RMB millions unless otherwise stated)

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:

		The Group	
	Note	**2014**	2013
Net deferred tax assets after offsetting:			
Deferred tax assets:			
Allowance for doubtful debts		**1,295**	1,167
Impairment loss on property, plant and equipment		**25**	36
Write-down of inventories		**58**	89
Unrecognised revaluation surplus on prepayments for the leasehold land determined under PRC regulations	(ii)	**1,556**	1,619
Accruals of expenses not yet deductible for tax purpose		**833**	1,087
Deferred revenue on subscriber points reward program		**135**	113
Unrealised profit for the inter-company transactions		**293**	297
Deductible tax losses		**241**	615
Changes in fair value on financial assets through other comprehensive income		**1,441**	1,267
Payroll and contributions to defined contribution pension schemes accrued but not paid		**880**	432
Others		**500**	360
		7,257	7,082
Deferred tax liabilities:			
Capitalised interest already deducted for tax purpose		**–**	(21)
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		**(31)**	(12)
Accelerated depreciation of property, plant and equipment	(iii)	**(696)**	–
Others		**(5)**	(5)
		(1,042)	(348)
		6,215	6,734
Net deferred tax liabilities after offsetting:			
Deferred tax liabilities:			
Accelerated depreciation for tax purpose		**(17)**	(26)
		(17)	(26)

(All amounts in RMB millions unless otherwise stated)

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 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 were not recognised under IFRSs/HKFRSs. Accordingly, deferred tax assets were recorded by the Group under IFRSs/HKFRSs.

(iii) According to "Announcement on Enterprise Income Tax Policy for Those Enterprise Involved in the Accelerated Depreciation of Property, Plant and Equipment" (Caishui [2014] No.75) issued by the Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") of the PRC, starting from 2014, the Group's property, plant and equipment that comply with this tax policy are allowed to be depreciated under the accelerated depreciation method, or fully deducted for tax purpose in the year of purchase. Temporary differences arise from the different useful life under tax basis and accounting basis have been recorded as deferred tax liabilities.

	The Company	
	2014	2013
Deferred tax assets:		
Changes in fair value on financial assets through other comprehensive income	**1,440**	1,267
Others	**3**	2
	1,443	1,269
Deferred tax liabilities:		
Realised gain on changes in fair value of derivative financial instrument in 2009	**(310)**	(310)
	1,133	959

10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	The Group		The Company	
	2014	2013	**2014**	2013
Listed in the PRC	**173**	97	**–**	–
Listed outside the PRC	**5,706**	6,400	**5,706**	6,400
Unlisted	**23**	–	**–**	–
	5,902	6,497	**5,706**	6,400

For the year ended 31 December 2014, decrease in fair value of financial assets at fair value through other comprehensive income amounted to approximately RMB619 million (2013: increase of approximately RMB930 million). The decrease, net of tax impact, of approximately RMB464 million (2013: increase, net of tax impact, of approximately RMB690 million) has been recorded in the consolidated statement of comprehensive income.

(All amounts in RMB millions unless otherwise stated)

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

(a) Investments in subsidiaries

	The Company	
	2014	2013
Unlisted equity investments, at cost	**159,798**	159,789

As at 31 December 2014, the details of the Company's subsidiaries are as follows:

Name	Place and date of incorporation / establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
China United Network Communications Corporation Limited ("CUCL")	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	Dormant
China Unicom (Europe) Operations Limited	The United Kingdom, 8 November 2006, limited company	100%	–	4,861,000 shares, GBP1 each	Telecommunications operation in the 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	Dormant
China Unicom (South Africa) Operations (Pty) Limited	South Africa, 19 November 2012, limited liability company	100%	–	Not applicable	Dormant

(All amounts in RMB millions unless otherwise stated)

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

(a) Investments in subsidiaries (Continued)

Name	Place and date of incorporation / establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
China Unicom (MYA) Operations Company Limited	The Republic of the Union of Myanmar ("Myanmar"), 7 June 2013, limited liability company	99%	1%	50,000 shares USD1 each	Communications technology training in Myanmar
China Unicom (Australia) Operations Pty Limited	New South Wales, 27 May 2014, limited liability company	100%	–	150,000 shares, AUD 1 each	Telecommunications operation in Australia
China Unicom (Hong Kong) Operations Limited	Hong Kong, 24 May 2000, limited company	–	100%	60,100,000 ordinary shares	Telecommunications service in Hong Kong
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, 25 April 1996, limited liability company	–	100%	RMB264,227,115	Provision of telecommunications network construction, planning and technical consulting services in the PRC

(All amounts in RMB millions unless otherwise stated)

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

(a) Investments in subsidiaries (Continued)

Name	Place and date of incorporation / establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
China Information Technology Designing & Consulting Institute Company Limited	The PRC, 11 November 1991, limited liability company	–	100%	RMB430,000,000	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 the PRC
Unicompay Company Limited	The PRC, 11 April 2011, limited liability company	–	100%	RMB250,000,000	Provision of e-payment 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

(All amounts in RMB millions unless otherwise stated)

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

(a) Investments in subsidiaries (Continued)

Name	Place and date of incorporation / establishment and nature of legal entity	Percentage of equity interests held		Particular of issued share capital/paid up capital	Principal activities and place of operation
		Direct	Indirect		
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
Unicom Cloud Data Company Limited	The PRC, 4 June 2013, limited liability company	–	100%	RMB100,000,000	Provision of technology development, transfer and consulting service in the PRC
Unicom Innovation Investment Company Limited	The PRC, 29 April 2014, limited liability company	–	100%	RMB200,000,000	Venture capital investment business in the PRC
Wostore Technology Company Limited	The PRC, 24 October 2014, limited liability company	–	100%	RMB200,000,000	Communications technology development and promotion in the PRC

(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 originally wholly repayable in 2009. In June 2010, the Company and CUCL extended the agreement for five years 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 2014, such loan amounted to approximately RMB6,088 million (2013: approximately RMB6,066 million).

(ii) In April 2009, the Company and China Netcom signed an agreement for a short-term unsecured loan facility of HKD100 million to China Netcom. The loan under the agreement is interest-free and was originally repayable in full in 2010, but subsequently extended on a yearly basis. In 2013, the Company and China Netcom extended the agreement for one year on the same terms. As at 31 December 2013, China Netcom has utilised HKD88 million, equivalent to approximately RMB69 million. The loan was fully repaid in August 2014.

(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 2014, such loans amounted to approximately RMB11,149 million (2013: approximately RMB11,108 million).

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

(b) Loans to/from subsidiaries (Continued)

(iv) In February 2012, China Unicom (Americas) Operations Limited signed an agreement with the Company for an intra-group loan to the Company with no fixed repayment term. The interest rate on USD was LIBOR plus 0.3% margin. As at 31 December 2014, the balance of the loan amounted to approximately USD2 million (equivalent to approximately RMB16 million) (2013: approximately USD2 million, equivalent to approximately RMB15 million).

(v) In November 2012, the Company signed an agreement with CUCL 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. As at 31 December 2014, CUCL has utilised RMB10 billion (2013: RMB10 billion).

(vi) In August 2013, the Company signed an agreement with CUCL for a long-term unsecured loan to CUCL of RMB10 billion. The loan carries interests at 1.8% per annum and is repayable in 2018. As at 31 December 2014, CUCL has utilised RMB10 billion (2013: RMB7.5 billion).

(vii) In September and October 2013, China Unicom (Singapore) Operations Pte Limited, China Unicom (Hong Kong) Operations Limited and China Unicom (Japan) Operations Corporation, signed agreements with the Company for intra-group loans to the Company with no fixed repayment term. In May 2014, China Unicom (Europe) Operations Limited, signed agreements with the Company for intra-group loans to the Company with no fixed repayment term. The interest rate on USD/SGD/HKD/JPY/Euro/GBP denominated loans is LIBOR/SIBOR/HIBOR/LIBOR/LIBOR/LIBOR plus 0.3% margin. As at 31 December 2014, the balances of these loans amounted to approximately USD2 million, JPY44 million, Euro2 million and GBP1 million (equivalent to approximately RMB36 million)(2013: approximately USD1 million and JPY34 million (equivalent to approximately RMB8 million)).

(viii) In February 2014, the Company signed agreements with CUCL for long-term unsecured loan facilities to CUCL of RMB20 billion. The loans carry interests at 2.0% per annum and are repayable in 2019. As at 31 December 2014, CUCL has utilised RMB15.7 billion.

(ix) In May 2014, the Company signed an agreement with China Unicom (Singapore) Operations Pte Limited for a short-term unsecured loan facility of USD41 million to China Unicom (Singapore) Operations Pte Limited. The loan carries interests at LIBOR plus 2.3% margin per annum and is repayable in 2015. As at 31 December 2014, China Unicom (Singapore) Operations Pte Limited has utilised USD17.44 million (equivalent to approximately RMB107 million).

(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.

(All amounts in RMB millions unless otherwise stated)

12. INTEREST IN ASSOCIATES

	The Group	
	2014	2013
Share of net assets	**3,037**	–

The following list contains the particulars of associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name	Form of business structure	Place of incorporation and business	Proportion of ownership interest held by a subsidiary	Paid up capital	Principal activities
China Tower Company Limited (Formerly known as China Communications Facilities Services Corporation Limited)	Incorporated	The PRC	30.1%	RMB10,000,000,000	Constructions, maintenance and operation of communications towers in the PRC (Note i)
Guang Lian Shi Tong New Media Limited	Incorporated	The PRC	49%	RMB51,020,408	Provision of mobile audio visual programs integrated broadcasting services in the PRC
China Unicom Innovation Investment Company (Shanghai) Limited	Incorporated	The PRC	62.5%	RMB40,000,000	Venture capital investment business in the PRC (Note ii)

(i) On 11 July 2014, the Company (through CUCL) entered into an agreement with a subsidiary of China Mobile Limited and China Telecom Corporation Limited to establish China Tower Company Limited. Pursuant to the agreement, the Company subscribed for 3.01 billion shares at a par value of RMB1.00 per share in the registered capital of China Tower Company Limited in cash, representing 30.1% of the registered capital of China Tower Company Limited.

(ii) The Group has significant influence on China Unicom Innovation Investment Company (Shanghai) Limited ("Innovation Investment Company"), but not control over or joint control over its management, including participation in the financial and operating policy decisions. A subsidiary of the Company only owns 40% of the voting rights of Innovation Investment Company.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

(All amounts in RMB millions unless otherwise stated)

12. INTEREST IN ASSOCIATES (CONTINUED)

Summarised financial information of the material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements, are disclosed below:

	China Tower Company Limited
	2014
Current assets	9,676
Non-current assets	454
Current liabilities	(244)
Non-current liabilities	–
Equity	(9,886)
Revenue	–
Loss for the year	(114)
Other comprehensive income for the year	-
Total comprehensive income for the year	(114)
Reconciled to the Group's interest in the associate:	
Net assets of the associate	9,886
Group's effective interest	30.1%
Carrying amount in the consolidated financial statements	2,976

13. OTHER ASSETS – GROUP

		The Group	
	Note	2014	2013
Purchased software		9,100	8,121
Prepaid rental for premises, leased lines and electricity cables		6,927	6,955
Installation costs		663	712
Direct incremental costs for activating broadband subscribers		3,762	1,894
Others	(i)	2,589	3,614
		23,041	21,296

(i) The amount includes the receivables from the sales of mobile handsets that are gradually recovered over one year during the contract period. Receivables to be gradually recovered within one year is included in prepayments and other current assets (see Note 16(i)).

(All amounts in RMB millions unless otherwise stated)

14. INVENTORIES AND CONSUMABLES – GROUP

	The Group	
	2014	2013
Handsets and other customer end products	**3,656**	4,548
Telephone cards	**237**	386
Consumables	**350**	514
Others	**135**	88
	4,378	5,536

15. ACCOUNTS RECEIVABLE – GROUP

	The Group	
	2014	2013
Accounts receivable	**19,135**	19,133
Less: Allowance for doubtful debts	**(4,464)**	(4,291)
	14,671	14,842

The aging analysis of accounts receivable is as follows:

	The Group	
	2014	2013
Current and within one month	**11,447**	10,633
More than one month to three months	**1,738**	1,955
More than three months to one year	**3,258**	3,992
More than one year	**2,692**	2,553
	19,135	19,133

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.

(All amounts in RMB millions unless otherwise stated)

15. ACCOUNTS RECEIVABLE – GROUP (CONTINUED)

As at 31 December 2014, accounts receivable of approximately RMB3,224 million (2013: approximately RMB4,209 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	
	2014	2013
More than one month to three months	**1,738**	1,955
More than three months to one year	**754**	1,474
More than one year	**732**	780
	3,224	4,209

As at 31 December 2014, accounts receivable of approximately RMB4,464 million (2013: approximately RMB4,291 million) were impaired. The Group makes such allowance based on its past experience, historical collection patterns, subscribers' creditworthiness and collection trends. The Group makes a full allowance 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	
	2014	2013
More than three months to one year	**2,504**	2,518
More than one year	**1,960**	1,773
	4,464	4,291

Allowance for doubtful debts is analysed as follows:

	The Group	
	2014	2013
Balance, beginning of year	**4,291**	4,066
Allowance for the year	**3,098**	3,275
Written-off during the year	**(2,925)**	(3,050)
Balance, end of year	**4,464**	4,291

The creation and release of allowance 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 the receivable.

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

(All amounts in RMB millions unless otherwise stated)

16. PREPAYMENTS AND OTHER CURRENT ASSETS

The nature of prepayments and other current assets, net of allowance for doubtful debts, are as follows:

		The Group		The Company	
	Note	**2014**	2013	**2014**	2013
Receivable for the sales of mobile handsets	(i)	**2,846**	3,462	**–**	–
Prepaid rental		**2,639**	2,329	**–**	–
Deposits and prepayments		**1,857**	2,459	**6**	26
Advances to employees		**161**	246	**–**	–
Value-added tax recoverable	(ii)	**920**	149	**–**	–
Prepaid enterprise income tax		**342**	11	**–**	–
Others		**1,264**	1,008	**–**	–
		10,029	9,664	**6**	26

(i) The Group offers preferential packages to the customers which include the bundle sales of mobile handsets 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. For those contractual preferential packages with guarantees by third parties, 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 receivable for the sales of mobile handsets is gradually recovered during the contract period when the customers pay the monthly package fee. Receivables to be gradually recovered over one year amounted to RMB1,195 million (2013: RMB2,496 million), and are included in long-term other assets (see Note 13(i)).

(ii) Pursuant to the Cai Shui [2014] No. 43 issued by MOF and SAT of the PRC, pilot programme regarding the replacement of business tax with value-added tax ("VAT") could be implemented nationwide for the telecommunications industry from 1 June 2014 (see Note 29). VAT recoverable includes the input VAT and prepaid VAT that can be deducted within one year.

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

	The Group		The Company	
	2014	2013	**2014**	2013
Within one year	**9,866**	9,310	**6**	26
More than one year	**163**	354	**–**	–
	10,029	9,664	**6**	26

As at 31 December 2014, there was no significant impairment for the prepayments and other current assets.

(All amounts in RMB millions unless otherwise stated)

17. SHORT-TERM BANK DEPOSITS – GROUP

	The Group	
	2014	2013
Bank deposits with maturity exceeding three months	**30**	30
Restricted bank deposits	**26**	24
	56	54

As at 31 December 2014, 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.

18. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2014	2013	**2014**	2013
Cash at bank and in hand	**23,791**	20,796	**335**	256
Bank deposits with original maturities of three months or less	**1,517**	710	**1,517**	710
	25,308	21,506	**1,852**	966

19. SHARE CAPITAL – COMPANY

As at 31 December 2013, 30,000,000,000 ordinary shares, with par value of HKD0.10 each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622), which became effective on 3 March 2014, the concepts of "authorised share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amounts standing to the credit of the share premium account and the capital redemption reserve on 3 March 2014 have become part of the Company's share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

(All amounts in RMB millions unless otherwise stated)

19. SHARE CAPITAL – COMPANY (CONTINUED)

Issued and fully paid:	Number of shares millions	Share capital	Share premium	Capital redemption reserve	Total
At 1 January 2013	23,565	2,311	173,473	79	175,863
Issuance of shares upon exercise of options (Note 37)	217	17	1,731	–	1,748
At 31 December 2013	23,782	2,328	175,204	79	177,611
Issuance of shares upon exercise of options under the predecessor Hong Kong Companies Ordinance (Note 37)	**2**	**–**	**19**	**–**	**19**
Transition to no-par value regime on 3 March 2014	**–**	**175,302**	**(175,223)**	**(79)**	**–**
Issuance of shares upon exercise of options under the new Hong Kong Companies Ordinance (Note 37)	**163**	**1,471**	**–**	**–**	**1,471**
At 31 December 2014	**23,947**	**179,101**	**–**	**–**	**179,101**

20. 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 RMB1,166 million (2013: approximately RMB988 million) to the general reserve fund for the year ended 31 December 2014.

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 2014 and 2013, no appropriation to staff bonus and welfare fund has been made by CUCL.

20. RESERVES (CONTINUED)

(a) Nature and purpose (Continued)

(i) Statutory reserves (Continued)

According to the PRC tax approval document issued by the MOF and SAT, the 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, an accumulated appropriation of approximately RMB12,289 million was made to the statutory reserve and no more upfront connection fees are recognised afterwards.

(ii) Share premium and capital redemption reserve

Prior to 3 March 2014, the application of the share premium account and the capital redemption reserve was governed by sections 48B and 49H respectively of the predecessor Hong Kong Companies Ordinance (Cap. 32).

In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), the amounts standing to the credit of the share premium account and the capital redemption reserve on 3 March 2014, of RMB175,223 million and RMB79 million respectively, have become part of the Company's share capital. The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

(iii) Employee share-based compensation reserve

Employee share-based compensation reserve represents the fair value of share options granted to employees of the Group that are recognised in accordance with the accounting policy in Note 2.22 (e).

(iv) 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.

(v) Convertible bonds reserve

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

(vi) Other reserve

Other reserve mainly represents the difference between the consideration and the net assets value for business combination of entities and businesses under common control and the effect of CUCL's capitalisation of retained profits.

(All amounts in RMB millions unless otherwise stated)

20. RESERVES (CONTINUED)

(b) Profit attributable to equity shareholders of the Company

For the year ended 31 December 2014, profit attributable to equity shareholders of the Company included a profit of approximately RMB5,465 million (2013: approximately RMB5,081 million), which has been dealt with in the financial statements of the Company. As at 31 December 2014, the amount of profit distributable to equity shareholders of the Company amounted to approximately RMB4,930 million (2013: approximately RMB4,410 million).

21. LONG-TERM BANK LOANS – GROUP

	Interest rates and final maturity	The Group	
		2014	2013
USD denominated bank loans	Fixed interest rates ranging from Nil to 5.00% (2013: Nil to 5.00%) per annum with maturity through 2039 (2013: maturity through 2039)	**330**	351
Euro denominated bank loans	Fixed interest rates ranging from 1.10% to 2.50% (2013: 1.10% to 2.50%) per annum with maturity through 2034 (2013: maturity through 2034)	**135**	178
Sub-total		**465**	529
Less: Current portion		**(45)**	(48)
		420	481

As at 31 December 2014, long-term bank loans of approximately RMB90 million (31 December 2013: approximately RMB97 million) were guaranteed by third parties.

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

	The Group	
	2014	2013
Balances due:		
– not later than one year	**45**	48
– later than one year and not later than two years	**41**	46
– later than two years and not later than five years	**136**	139
– later than five years	**243**	296
	465	529
Less: Portion classified as current liabilities	**(45)**	(48)
	420	481

22. PROMISSORY NOTES

On 3 April 2014, the Company established a Medium Term Note Programme (the "MTN Programme"), under which the Company could offer and issue notes of aggregate principal amount of up to RMB10 billion. Notes under the MTN Programme will be denominated in RMB and are to be issued to professional investors outside the United States. On 16 April 2014, the Company completed the issue of Notes in an aggregate nominal amount of RMB4 billion pursuant to the MTN Programme, with a maturity of 3 years and at an interest rate of 4.00% per annum. On 24 July 2014, the Company completed the issue of Notes in an aggregate nominal amount of RMB2.5 billion with a maturity period of 2 years and at an interest rate of 3.80% per annum.

On 16 April 2014, CUCL issued tranche one of 2014 promissory notes in the amount of RMB5 billion, with a maturity period of 3 years from the date of issue and which carries interests at 5.35% per annum.

On 14 July 2014, CUCL issued tranche two of 2014 promissory notes in an amount of RMB5 billion, with a maturity period of 3 years from the date of issue and which carries interest at 4.84% per annum.

On 28 November 2014, CUCL issued tranche three of 2014 promissory notes in an amount of RMB5 billion, with a maturity period of 3 years from the date of issue and which carries interest at 4.20% per annum.

23. 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 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. Adjustments have been made to the conversion price from HKD15.85 to HKD15.05 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, would at the option of a bondholder, redeem all and not some only of such bondholder's convertible bonds on 18 October 2013, the date fixed for redemption, at their principal amount together with interest accrued and unpaid (the "Put Option"). The last day on which the bondholders may give notice to exercise the Put Option was 18 September 2013. As no bondholder gave notice to exercise the Put Option to require the redemption of their convertible bonds by 18 September 2013, such right expired on that date. 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 2014 and 2013, there was no conversion of the convertible bonds into shares in 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 equity shareholders of the Company.

(All amounts in RMB millions unless otherwise stated)

23. CONVERTIBLE BONDS – GROUP (CONTINUED)

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

	The Group	
	2014	2013
Movement of liability component:		
Beginning of year	**11,002**	11,215
Less: interest paid	**(85)**	(85)
Add: effect of exchange loss/(gain) on liability component	**39**	(338)
Add: imputed finance cost	**211**	210
End of year	**11,167**	11,002

The liability component of the convertible bonds at 31 December 2014 amounted to approximately USD1,825 million (equivalent to RMB11,167 million) (2013: approximately USD1,804 million, equivalent to RMB11,002 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.

24. 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 were secured by a corporate guarantee granted by Bank of China Limited.

25. OTHER OBLIGATIONS – GROUP

		The Group	
	Note	**2014**	2013
One-off cash housing subsidies	(a)	**2,496**	2,502
Obligations under finance lease	(b)	**286**	317
Others		**133**	108
Sub-total		**2,915**	2,927
Less: Current portion		**(2,698)**	(2,672)
		217	255

(All amounts in RMB millions unless otherwise stated)

25. OTHER OBLIGATIONS – GROUP (CONTINUED)

(a) One-off cash housing subsidies

Certain staff quarters, prior to 1998, were 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.

Based on the relevant detailed local government regulations promulgated, certain entities within the Group 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 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 State Council circular in respect of cash subsidies was issued).

In January 2009, through the absorption of China Netcom (Group) Company Limited ("CNC China") by CUCL and the absorption of China Network Communications Group Corporation ("Netcom Group") by Unicom Group, the rights and obligations formerly undertaken by CNC China and Netcom Group were taken over by CUCL and Unicom Group separately. As at 31 December 2014, the Group's unpaid one-off cash housing subsides amounted to approximately RMB2,496 million. If the actual payments required for these one-off housing subsidies differ from the amount provided, Unicom Group will bear any additional payments required. If the actual payments are lower than the amount provided, the difference will be paid to Unicom Group.

(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:

	2014	2013
Total minimum lease payments under finance lease:		
– not later than one year	**176**	167
– later than one year and not later than two years	**81**	100
– later than two years and not later than three years	**43**	66
	300	333
Less: Future finance charges	**(14)**	(16)
Present value of minimum obligations	**286**	317
Representing obligations under finance lease:		
– current liabilities	**168**	161
– non-current liabilities	**118**	156

(All amounts in RMB millions unless otherwise stated)

26. SHORT-TERM BANK LOANS

		The Group		The Company	
	Interest rates and final maturity	2014	2013	2014	2013
RMB denominated bank loans	Fixed interest rates ranging from 3.62% to 5.32% (2012:3.62% to 5.04%) per annum with maturity through 2015 (2013: maturity through 2014)	**42,525**	56,173	**4,000**	–
HKD denominated bank loans	Floating interest rates of HIBOR plus interest margin from 0.70% to 2.10% (2013: 0.85% to 1.20%) per annum with maturity through 2015 (2013: maturity through 2014)	**48,978**	38,249	**48,978**	38,249
Total		**91,503**	94,422	**52,978**	38,249

27. COMMERCIAL PAPERS – GROUP

On 10 July 2013, CUCL issued tranche one of 2013 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 interest at 4.20% per annum. The super and short-term commercial papers were fully repaid in September 2013.

On 17 September 2013, CUCL issued tranche two of 2013 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 4.63% per annum. The super and short-term commercial papers were fully repaid in March 2014.

On 12 October 2013, CUCL issued tranche three of 2013 super and short-term commercial papers in an amount of RMB10 billion, with a maturity date of 180 days from the date of issue and carried interest at 4.68% per annum. The super and short-term commercial papers were fully repaid in April 2014.

On 21 October 2013, CUCL issued tranche four of 2013 super and short-term commercial papers in an amount of RMB10 billion, with a maturity date of 180 days from the date of issue and carried interest at 4.68% per annum. The super and short-term commercial papers were fully repaid in April 2014.

On 24 March 2014, CUCL issued tranche one of 2014 super and short term commercial papers in an amount of RMB10 billion, with a maturity period of 270 days from the date of issue and which carries interest at 5.10% per annum. The super and short-term commercial papers were fully repaid in December 2014.

On 15 July 2014, CUCL issued tranche one of 2014 commercial papers in an amount of RMB10 billion, with a maturity period of 365 days from the date of issue and which carries interest at 4.60% per annum.

(All amounts in RMB millions unless otherwise stated)

28. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	The Group		The Company	
	2014	2013	**2014**	2013
Payables to contractors and equipment suppliers	**85,699**	72,900	**–**	–
Payables to telecommunications products suppliers	**6,076**	5,333	**–**	–
Customer/contractor deposits	**4,129**	4,135	**–**	–
Repair and maintenance expense payables	**3,780**	3,251	**–**	–
Salary and welfare payables	**4,565**	2,548	**10**	9
Interest payable	**747**	568	**867**	610
Amounts due to services providers/ content providers	**1,257**	1,459	**–**	–
Accrued expenses	**10,636**	9,041	**21**	56
Others	**3,482**	2,977	**–**	–
	120,371	102,212	**898**	675

The aging analysis of payables and accrued liabilities is as follows:

	The Group		The Company	
	2014	2013	**2014**	2013
Less than six months	**104,334**	82,279	**897**	674
Six months to one year	**6,867**	8,239	**–**	-
More than one year	**9,170**	11,694	**1**	1
	120,371	102,212	**898**	675

29. REVENUE – GROUP

Before 1 June 2014, service revenue and revenue from bundle sales of mobile handsets were subject to a business tax rate of 3%-5% while standalone sales of telecommunications products were subject to VAT of 17%. Relevant tax was set off against revenue.

The MOF and SAT of the PRC jointly issued a notice (the "Notice") dated 29 April 2014 pursuant to which the pilot programme regarding the replacement of business tax with VAT could be implemented nationwide for the telecommunications industry (the "VAT Reform") from 1 June 2014.

(All amounts in RMB millions unless otherwise stated)

29. REVENUE – GROUP (CONTINUED)

The Notice sets out the specific scope of taxable telecommunications services and tax rates applicable to various telecommunications services. The VAT rate for basic telecommunications services is 11%; the VAT rate for value-added telecommunications services is 6% and the VAT rate for sales of telecommunications products remains at 17%. Basic telecommunications services include business activities for the provision of voice services, as well as business activities in relation to rental or sales of bandwidth, wavelength and other network elements etc; value-added telecommunications services include business activities for the provision of Short Message Service and Multimedia Message Service, electronic data and information transmission and application services, Internet access service etc. VAT is excluded from the revenue.

The major components of revenue are as follows:

	2014	2013
Mobile business		
– Usage and monthly fees	**62,152**	68,626
– Value-added services revenue	**79,814**	67,975
– Interconnection fees	**12,398**	13,635
– Other mobile business service revenue	**731**	897
Total service revenue from mobile business	**155,095**	151,133
Fixed-line business		
– Usage and monthly fees	**14,357**	17,698
– Broadband, data and other Internet-related services revenue	**52,579**	48,278
– Interconnection fees	**3,979**	4,146
– Value-added services revenue	**4,324**	3,996
– Leased line income	**8,879**	8,389
– Information communications technology services revenue	**3,469**	2,991
– Other fixed-line business service revenue	**894**	989
Total service revenue from fixed-line business	**88,481**	86,487
Other service revenue	**1,302**	947
Total service revenue	**244,878**	238,567
Sales of telecommunications products	**39,803**	56,471
	284,681	295,038

30. NETWORK, OPERATION AND SUPPORT EXPENSES – GROUP

	2014	2013
Repairs and maintenance	**13,619**	11,697
Power and water charges	**12,642**	12,186
Operating lease charges for network, premises, equipment and facilities	**10,274**	8,625
Others	**1,316**	1,196
	37,851	33,704

31. EMPLOYEE BENEFIT EXPENSES – GROUP

	Note	2014	2013
Salaries and wages		26,249	24,025
Contributions to defined contribution pension schemes		4,721	4,363
Contributions to medical insurance		1,526	1,372
Contributions to housing fund		2,125	1,953
Other housing benefits		31	20
Share-based compensation	37	–	50
		34,652	31,783

31.1 Directors' emoluments

The remuneration of each Director for the year ended 31 December 2014 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	688	–	88	1,076
Lu Yimin		–	300	625	–	88	1,013
Tong Jilu	(b)	–	151	309	–	53	513
Li Fushen		–	250	564	–	88	902
Zhang Junan	(c)	–	100	226	–	35	361
Cesareo Alierta Izuel		238	–	–	–	–	238
Cheung Wing Lam Linus		325	–	–	–	–	325
Wong Wai Ming		333	–	–	–	–	333
John Lawson Thornton		325	–	–	–	–	325
Chung Shui Ming Timpson		325	–	–	–	–	325
Cai Hongbin		341	–	–	–	–	341
Law Fan Chiu Fun, Fanny		293	–	–	–	–	293
Total		2,180	1,101	2,412	–	352	6,045

31. EMPLOYEE BENEFIT EXPENSES – GROUP (CONTINUED)

31.1 Directors' emoluments (Continued)

The remuneration of each Director for the year ended 31 December 2013 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	698	114	79	1,191
Lu Yimin		–	300	691	–	79	1,070
Tong Jilu	(b)	–	250	625	51	79	1,005
Li Fushen		–	250	625	2	79	956
Cesareo Alierta Izuel		239	–	–	–	–	239
Cheung Wing Lam Linus		327	–	–	–	–	327
Wong Wai Ming		335	–	–	–	–	335
John Lawson Thornton		327	–	–	–	–	327
Chung Shui Ming Timpson		327	–	–	–	–	327
Cai Hongbin		343	–	–	–	–	343
Law Fan Chiu Fun, Fanny		295	–	–	–	–	295
Total		2,193	1,100	2,639	167	316	6,415

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) Mr. Tong Jilu was resigned as executive director on 8 August 2014.

(c) Mr. Zhang Junan was appointed as executive director on 8 August 2014.

During 2014 and 2013, no share options were granted to the Directors.

No directors waived the right to receive emoluments during the years ended 31 December 2014 and 2013.

During 2014 and 2013, 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.

31. EMPLOYEE BENEFIT EXPENSES – GROUP (CONTINUED)

31.2 Senior management's emoluments

Of the ten senior management of the Company for the year ended 31 December 2014, five of them are directors of the Company and their remuneration has been disclosed in Note 31.1. For the remuneration of the ten senior management, eight fall within the band from RMB Nil to RMB1,000,000 and two fall within the band from RMB1,000,001 to RMB1,500,000.

31.3 Five highest paid individuals

Of the five highest paid individuals for the year ended 31 December 2014, three (2013: three) of them are existing directors of the Company and their remuneration has been disclosed in Note 31.1. For the remuneration of the remaining two (2013: two), 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 (2013: 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).

The aggregate of the emoluments in respect of the other two (2013: two) individuals are as follows:

	2014 (RMB'000)	2013 (RMB'000)
Salaries and allowances	**2,452**	2,319
Bonuses paid and payable	**397**	373
Contributions to pension schemes	**27**	24
Other benefits (Note 31.1(a))	**–**	–
	2,876	2,716

32. COSTS OF TELECOMMUNICATIONS PRODUCTS SOLD – GROUP

	2014	2013
Handsets and other customer end products	**42,707**	62,430
Telephone cards	**562**	914
Others	**128**	72
	43,397	63,416

(All amounts in RMB millions unless otherwise stated)

33. OTHER OPERATING EXPENSES – GROUP

	Note	2014	2013
Impairment losses for doubtful debts and write-down of inventories		**3,958**	4,219
Cost in relation to information communications technology services		**3,119**	2,664
Commission expenses		**26,357**	28,126
Customer acquisition cost and advertising and promotion expenses		**5,228**	6,990
Amortised customer installation cost		**4,799**	3,319
Customer retention cost		**3,809**	4,556
Auditors' remuneration		**63**	59
Property management fee		**2,282**	2,163
Office and administrative expenses		**2,290**	2,755
Transportation expense		**1,979**	2,128
Miscellaneous taxes and fees		**880**	833
Technical support expenses		**1,432**	1,163
Repairs and maintenance expenses		**891**	792
Loss on disposal of property, plant and equipment		**1,064**	–
VAT surcharges	(i)	**847**	–
Others		**2,413**	2,197
		61,411	61,964

(i) After VAT reform (see Note 29), according to relevant administrative regulations, the Group should pay City Construction Tax and Education Surcharges calculated at prescribed percentages on the amounts of the VAT paid.

34. FINANCE COSTS – GROUP

	Note	2014	2013
Finance costs:			
– Interest on bank loans repayable within 5 years		**3,299**	2,538
– Interest on corporate bonds, promissory notes and commercial papers repayable within 5 years		**1,583**	2,136
– Interest on convertible bonds repayable within 5 years		**211**	210
– Interest on related parties loans repayable within 5 years		**71**	42
– Interest on bank loans repayable over 5 years		**2**	3
– Less: Amounts capitalised in CIP	6	**(825)**	(894)
Total interest expense		**4,341**	4,035
– Exchange gain, net		**(6)**	(1,325)
– Others		**282**	403
		4,617	3,113

(All amounts in RMB millions unless otherwise stated)

35. 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.

On 14 May 2012, Telefónica declared a dividend. The Company chose to implement it by means of a scrip dividend and received 1,646,269 ordinary shares of approximately RMB146 million.

As at 31 December 2014, the related financial assets at fair value through other comprehensive income amounted to approximately RMB5,706 million (2013: approximately RMB6,400 million). For the year ended 31 December 2014, the decrease in fair value of the financial assets through other comprehensive income was approximately RMB694 million (2013: increase of approximately RMB958 million). The decrease, net of tax impact, of approximately RMB520 million (2013: increase, net of tax impact, of approximately RMB719 million), has been recorded in the consolidated statement of comprehensive income.

36. OTHER INCOME – NET – GROUP

	2014	2013
Dividend income from financial assets at fair value through other comprehensive income	**392**	193
Others	**970**	694
	1,362	887

37. EQUITY-SETTLED SHARE OPTION SCHEMES

37.1 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 (the "Share Option Scheme"). 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 (if applicable); 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 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 (if applicable);

- the closing price of the shares on the SEHK as stated in the SEHK's quotation sheets on the offer date in respect of the share options; and

- the average closing price of the shares on the SEHK'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.

37. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

37.1 Share option scheme (Continued)

On 26 May 2009, the Company further amended the Share Option Scheme with major amendments related to the exercise period. For details, please refer to Note (i) under 37.4 "Share option information" in this section.

All of the share options granted and outstanding as at 31 December 2014 are governed by the terms of the Share Option Scheme.

37.2 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 (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 then Hong Kong 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 were determined by the directors at their discretion.

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 37.4 "Share option information" in this section.

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

(All amounts in RMB millions unless otherwise stated)

37. EQUITY-SETTLED SHARE OPTION SCHEMES (CONTINUED)

37.3 2014 share option scheme

On 16 April 2014, the Company adopted a new share option scheme (the "2014 Share Option Scheme"). The 2014 Share Option Scheme is valid and effective for a period of 10 years commencing on 22 April 2014 and will expire on 22 April 2024. Under the 2014 Share Option Scheme, the share options may be granted to employees including all directors; any grant of share options to a Connected Person (as defined in 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) and all grants to connected persons shall be subject to compliance with the requirements of the Listing Rules, including where necessary the prior approval of the shareholders. As at 31 December 2014, 1,777,437,107 options were available for issue under the 2014 Share Option Scheme. Pursuant to the 2014 Share Option Scheme, the 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 closing price of the shares on the SEHK on the offer date in respect of the share options; and

(ii) The average closing price of the shares on the SEHK for the five trading days immediately preceding the offer date;

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. No share options had been granted since adoption of the 2014 Share Option Scheme.

37.4 Share option information

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

	The Company			
	2014		2013	
	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	**6.61**	**174,498,077**	6.49	391,331,158
Lapsed	**6.00**	**(5,759,994)**	4.30	(110,000)
Exercised	**6.64**	**(165,198,083)**	6.40	(216,723,081)
Balance, end of year	**6.35**	**3,540,000**	6.61	174,498,077
Exercisable at end of year	**6.35**	**3,540,000**	6.61	174,498,077

Exercise of share options during the year ended 31 December 2014 resulted in 165,198,083 shares being issued (2013: 216,723,081 shares), with exercise proceeds of approximately RMB871 million (2013: RMB1,102 million).

(All amounts in RMB millions unless otherwise stated)

37. EQUITY-SETTLED SHARE OPTION SCHEME (CONTINUED)

37.4 Share option information (Continued)

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 2014	Number of share options outstanding as at 31 December 2013
Share options granted under the Share Option Scheme:					
20 July 2004	20 July 2004 to 20 July 2007	20 July 2005 to 19 July 2014	HKD5.92	–	13,854,000
21 December 2004	21 December 2004 to 21 December 2007	21 December 2005 to 20 December 2014	HKD6.20	–	128,000
15 February 2006	15 February 2006 to 15 February 2009	15 February 2008 to 14 February 2015	HKD6.35	**3,540,000**	71,868,000
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 2014	HKD5.57	–	43,675,696
15 October 2008	15 October 2008 to 6 December 2010	15 October 2008 to 5 December 2014	HKD8.26	–	44,972,381
				3,540,000	174,498,077

The options outstanding as at 31 December 2014 had a weighted average remaining contractual life of 0.12 years (2013: 0.97 years).

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" was in force until middle of 2013, 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 2014, approximately 1,026,000 share options held by Transferred Personnel remained valid. These options would be lapsed if they were not exercised before 14 February 2015.

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 during the "Mandatory Moratorium Period" due to "Mandatory Moratorium", which was in force until middle of 2013, under the respective terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme.

(All amounts in RMB millions unless otherwise stated)

37. EQUITY-SETTLED SHARE OPTION SCHEME (CONTINUED)

37.4 Share option information (Continued)

Details of share options exercised during 2014 and 2013 are as follows:

For the year ended 31 December 2014:

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
20 July 2004	5.92	11.94	80,464,640	13,592,000
21 December 2004	6.20	13.30	793,600	128,000
15 February 2006	6.35	11.85	433,882,800	68,328,000
15 October 2008	5.57	12.27	217,608,197	39,067,899
15 October 2008	8.26	12.41	364,118,840	44,082,184
			1,096,868,077	165,198,083

For the year ended 31 December 2013:

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
21 May 2003	4.30	10.80	38,037,800	8,846,000
20 July 2004	5.92	11.55	160,846,400	27,170,000
21 December 2004	6.20	12.10	3,261,200	526,000
15 February 2006	6.35	11.68	505,066,300	79,538,000
15 October 2008	5.57	11.65	315,740,987	56,685,994
15 October 2008	8.26	11.92	363,085,539	43,957,087
			1,386,038,226	216,723,081

For the year ended 31 December 2014, there was no employee share-based compensation expenses (2013: approximately RMB50 million).

(All amounts in RMB millions unless otherwise stated)

38. DIVIDENDS

At the annual general meeting held on 16 April 2014, the shareholders of the Company approved the payment of a final dividend of RMB0.16 per ordinary share for the year ended 31 December 2013, totaling approximately RMB3,806 million which has been reflected as a reduction of retained profits for the year ended 31 December 2013. The dividend payable of approximately RMB773 million was due to Unicom BVI as at 31 December 2014.

At a meeting held on 3 March 2015, the Board of Directors of the Company proposed the payment of a final dividend of RMB0.20 per ordinary share to the shareholders for the year ended 31 December 2014 totaling approximately RMB4,789 million. This proposed dividend has not been reflected as a dividend payable in the financial statements as at 31 December 2014, but will be reflected as an appropriation of retained profits in the financial statements for the year ended 31 December 2015.

	2014	2013
Proposed final dividend:		
RMB0.20 (2013: RMB0.16) per ordinary share by the Company	**4,789**	3,805

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 SAT, pursuant to which the Company qualifies as a PRC TRE from 1 January 2008. Therefore, as at 31 December 2014, 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-PRC TRE enterprise shareholders, the Company would distribute dividends after deducting the amount of enterprise income tax payable by these non-PRC 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.

The arrangement relating to withholding tax, if any, in respect of the 2014 final dividend to be paid by the Company to the investors of the Shanghai Stock Exchange who invest in the shares of the Company listed on the Main Board of SEHK will be finalised with the relevant PRC authorities prior to the payment of the 2014 final dividend.

39. EARNINGS PER SHARE

Basic earnings per share for the years ended 31 December 2014 and 2013 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the years.

Diluted earnings per share for the years ended 31 December 2014 and 2013 were computed by dividing the profit attributable to equity shareholders of the Company by the weighted average number of ordinary shares outstanding during the years, after adjusting for the effects of the dilutive potential ordinary shares. All dilutive potential ordinary shares for the year ended 31 December 2014 arose from (i) share options granted under the amended Share Option Scheme and (ii) the convertible bonds, while all dilutive potential ordinary shares for the year ended 31 December 2013 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 following table sets forth the computation of basic and diluted earnings per share:

	2014	2013
Numerator (in RMB millions):		
Profit attributable to equity shareholders of the Company used in computing basic earnings per share	**12,055**	10,408
Imputed finance cost on the liability component of convertible bonds	**211**	210
Profit attributable to equity shareholders of the Company used in computing diluted earnings per share	**12,266**	10,618
Denominator (in millions):		
Weighted average number of ordinary shares outstanding used in computing basic earnings per share	**23,852**	23,658
Dilutive equivalent shares arising from share options	**2**	75
Dilutive equivalent shares arising from convertible bonds	**941**	923
Shares used in computing diluted earnings per share	**24,795**	24,656
Basic earnings per share (in RMB)	**0.51**	0.44
Diluted earnings per share (in RMB)	**0.49**	0.43

(All amounts in RMB millions unless otherwise stated)

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 have material transactions with the Group in its ordinary course of business, which include but not limited to 1) rendering and receiving telecommunications services, including interconnection revenue/charges; 2) purchasing of goods, including use of public utilities; and 3) placing of bank deposits and borrowing money. The Group's telecommunications network depends, in large part, on interconnection with the network and on transmission lines leased from other domestic carriers. 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.

Management believes that meaningful information relating to related party transactions has been disclosed below.

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	2014	2013
Transactions with Unicom Group and its subsidiaries:			
Charges for value-added telecommunications services	(i), (ii)	**51**	53
Rental charges for property leasing	(i), (iii)	**955**	943
Charges for lease of telecommunications resources	(i), (iv)	**271**	328
Charges for engineering design and construction services	(i), (v)	**3,138**	2,178
Charges for shared services	(i), (vi)	**119**	171
Charges for materials procurement services	(i), (vii)	**91**	188
Charges for ancillary telecommunications services	(i), (viii)	**2,111**	1,853
Charges for comprehensive support services	(i), (ix)	**840**	613
Income from comprehensive support services	(i), (ix)	**19**	52

40. RELATED PARTY TRANSACTIONS – GROUP (CONTINUED)

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

(a) Recurring transactions (Continued)

(i) The agreement governing the recurring related party transactions disclosed in (a) above between the Group and Unicom Group and its subsidiaries expired on 31 December 2013. Accordingly, on 24 October 2013, CUCL entered into the new agreement, "2013 Comprehensive Services Agreement" with Unicom Group to renew certain continuing connected transactions. 2013 Comprehensive Services Agreement has a term of three years commencing on 1 January 2014 and expiring on 31 December 2016, and the service fees payable shall be calculated on the same basis as under previous agreement. Annual caps for certain transactions have changed under the new agreement.

(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 communications 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 properties and ancillary facilities from each other. Rentals are based on the lower of the market rates and the depreciation costs and taxes. For the year ended 31 December 2014, the rental charge paid by Unicom Group was approximately RMB1.73 million, which was negligible.

(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. For the year ended 31 December 2014, the services charges paid by Unicom Group to CUCL was negligible.

40. RELATED PARTY TRANSACTIONS – GROUP (CONTINUED)

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

(a) Recurring transactions (Continued)

(vii) Unicom Group agreed to provide comprehensive procurement services for imported and domestic telecommunications materials and other domestic non-telecommunications materials 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 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.

(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.

(All amounts in RMB millions unless otherwise stated)

40. RELATED PARTY TRANSACTIONS – GROUP (CONTINUED)

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

(b) Amounts due from and to Unicom Group and its subsidiaries

Amount due to Unicom Group and its subsidiaries as at 31 December 2014 included the short-term unsecured loan from Unicom Group BVI of HKD600 million (equivalent to RMB473 million) (2013: Nil) with interest rate at HIBOR plus 2.3% per annum, and is repayable in 2015 and the unsecured entrusted loan from Unicom Group of RMB1,344 million (2013: RMB1,344 million) with interest rate at 5.4% per annum, and is repayable in 2015.

Amounts due to Unicom Group as at 31 December 2014 and 2013 included the consideration payable in connection with the acquisition of China Unicom NewSpace Limited in 2011 of approximately RMB158 million.

Apart from the short-term loan and entrusted loan as aforementioned, amounts due from and to 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 Unicom Group and its subsidiaries as described in (a) above.

(c) Commitments to related parties

As at 31 December 2014 and 2013, the Group had total future aggregate minimum operating lease payments to Unicom Group and its subsidiaries under non-cancellable operating leases as follows:

	2014	2013
Unicom Group and its subsidiaries	**930**	926

41. CONTINGENCIES AND COMMITMENTS

41.1 Capital commitments

As at 31 December 2014 and 2013, the Group had capital commitments, mainly in relation to the construction of telecommunications network, as follows:

	The Group			
	2014			2013
	Land and buildings	**Equipment**	**Total**	Total
Authorised and contracted for	**16**	**18,787**	**18,803**	11,815
Authorised but not contracted for	**21,742**	**11,460**	**33,202**	16,557
	21,758	**30,247**	**52,005**	28,372

(All amounts in RMB millions unless otherwise stated)

41. CONTINGENCIES AND COMMITMENTS (CONTINUED)

41.2 Operating lease commitments

As at 31 December 2014 and 2013, the Group had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

	The Group			
	2014			2013
	Land and buildings	**Equipment**	**Total**	Total
Leases expiring:				
– not later than one year	**3,172**	**1,160**	**4,332**	5,100
– later than one year and not later than five years	**5,831**	**1,498**	**7,329**	7,170
– later than five years	**1,902**	**385**	**2,287**	2,163
	10,905	**3,043**	**13,948**	14,433

As at 31 December 2014 and 2013, the Company had total future aggregate minimum operating lease payments under non-cancellable operating leases as follows:

	The Company	
	2014	2013
Office premise lease expiring:		
– not later than one year	**7**	15
– later than one year and not later than five years	**–**	7
	7	22

41.3 Contingent liabilities

As at 31 December 2014, the Company and the Group had no material contingent liabilities and no material financial guarantees issued, except for the guarantee provided by the Company in favour of the convertible bondholders in respect of the outstanding convertible bonds issued by Billion Express (see Note 41.4).

41.4 Guarantee

The Company provided a 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 2014 (2013: USD1,838,800,000)(Note 23).

42. EVENTS AFTER BALANCE SHEET DATE

LTE FDD operation permit

On 27 February 2015, Unicom Group has been granted the license to operate LTE/4G digital cellular mobile service (LTE FDD) by the Ministry of Industry and Information Technology of the People's Republic of China ("MIIT"). MIIT has also granted approval for Unicom Group to license CUCL to operate LTE/4G digital cellular mobile service (LTE FDD) nationwide in China.

Proposed dividend

After the balance sheet date, the Board of Directors proposed a final dividend for 2014. For details, please refer to Note 38.

43. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 3 March 2015.

FINANCIAL SUMMARY

For the five-year ended 31 December 2014

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

Selected financial summary for 2010 to 2014, including selected consolidated statement of income data and consolidated balance sheet data for 2010, 2011, 2012, 2013 and 2014 were prepared in accordance with IFRSs/HKFRSs.

RESULTS

Selected Statement of Income Data

	2014	2013	2012	2011	2010
Revenue	**284,681**	295,038	248,926	209,167	171,370
Interconnection charges	**(14,599)**	(20,208)	(18,681)	(16,380)	(13,727)
Depreciation and amortisation	**(73,868)**	(68,196)	(61,057)	(58,021)	(54,654)
Network, operation and support expenses	**(37,851)**	(33,704)	(32,516)	(29,449)	(26,387)
Employee benefit expenses	**(34,652)**	(31,783)	(28,778)	(26,601)	(23,348)
Costs of telecommunications products sold	**(43,397)**	(63,416)	(45,040)	(29,739)	(10,688)
Other operating expenses	**(61,411)**	(61,964)	(51,252)	(43,586)	(37,597)
Finance costs	**(4,617)**	(3,113)	(3,664)	(1,474)	(1,749)
Interest income	**283**	173	240	230	143
Other income – net	**1,362**	887	1,343	1,451	1,221
Profit before income tax	**15,931**	13,714	9,521	5,598	4,584
Income tax expenses	**(3,876)**	(3,306)	(2,425)	(1,371)	(883)
Profit for the year	**12,055**	10,408	7,096	4,227	3,701
Attributable to:					
Equity shareholders of the Company	**12,055**	10,408	7,096	4,227	3,701
Earnings per share for profit attributable to equity shareholders of the Company					
– basic (RMB)	**0.51**	0.44	0.30	0.18	0.16
– diluted (RMB)	**0.49**	0.43	0.30	0.18	0.16

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

RESULTS (CONTINUED)

Selected Balance Sheet Data

	2014	2013	2012	2011	2010
Property, plant and equipment	**438,321**	431,625	430,997	381,859	365,654
Financial assets at fair value through other comprehensive income	**5,902**	6,497	5,567	6,951	6,214
Current assets	**56,574**	52,210	48,174	38,803	42,327
Accounts receivable	**14,671**	14,842	13,753	11,412	9,304
Cash and cash equivalents	**25,308**	21,506	18,250	15,106	22,597
Total assets	**545,072**	529,171	516,124	456,233	441,269
Current liabilities	**291,920**	295,239	302,320	213,927	198,233
Accounts payable and accrued liabilities	**120,371**	102,212	108,486	95,252	97,666
Short-term bank loans	**91,503**	94,470	70,025	32,372	36,785
Commercial papers	**9,979**	35,000	38,000	38,000	23,000
Current portion of promissory notes	**–**	–	15,000	–	–
Current portion of corporate bonds	**–**	–	5,000	–	–
Convertible bonds	**11,167**	11,002	11,215	11,118	11,558
Long-term bank loans	**420**	481	536	1,384	1,462
Promissory notes	**21,460**	–	–	15,000	15,000
Corporate bonds	**2,000**	2,000	2,000	7,000	7,000
Total liabilities	**317,531**	310,272	306,619	250,335	235,608
Total equity	**227,541**	218,899	209,505	205,898	205,661

FORWARD-LOOKING STATEMENTS

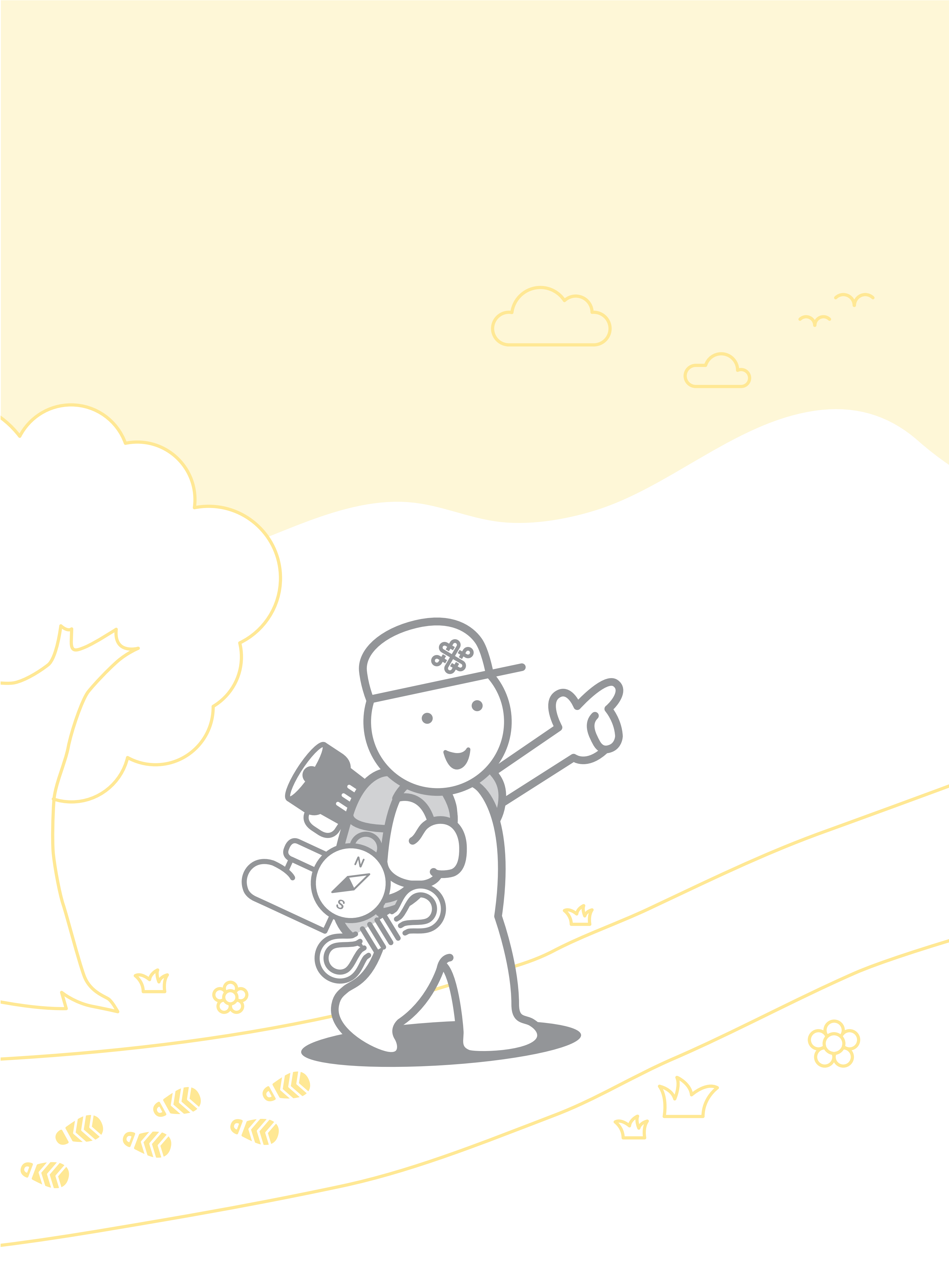
This annual report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements may include, without limitation, statements relating to the Company's 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 and 4G 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 and 4G 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 and are under no obligation to do so.

The forward-looking statements contained in this annual report are, by their nature, subject to significant risks and uncertainties. In addition, these forward-looking statements reflect 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 and 4G licenses by the central government of the PRC;
- effects of tariff reduction and other policy initiatives from the relevant PRC government authorities;
- changes in telecommunications and related technologies and applications based on such technologies;
- the level of demand for telecommunications services, in particular, 3G and 4G services;
- competitive forces from more liberalized markets and 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;
- effects of any potential restructuring and integration of the PRC telecommunication businesses and any cooperation among the PRC telecommunication operators;
- 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;
- effects of the imposition of and any changes in value-added tax relating to the PRC telecommunication business; and
- changes in the political, economic, legal, tax 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.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