CHINA UNICOM (HONG KONG) Ltd
Form 20-F
April 25, 2013
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

OR

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

OR

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

Commission file number 1-15028

CHINA UNICOM (HONG KONG) LIMITED

(Exact Name of Registrant as Specified in Its Charter)

N/A	Hong Kong
(Translation of Registrant s Name Into English)	(Jurisdiction of Incorporation or Organization)

75th Floor, The Center

99 Queen s Road Central

Hong Kong

(Address of Principal Executive Offices)

Chu Ka Yee

Telephone: +852 2121 3220

Facsimile: +852 2121 3232

75th Floor, The Center

99 Queen s Road Central

Hong Kong

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

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

Title of Each Class	Name of Each Exchange On Which Registered
Ordinary shares, par value HK$0.10 per share	The New York Stock Exchange, Inc.*

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

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

None

(Title of class)

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

None

(Title of Class)

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

As of December 31, 2012, 23,565,051,919 ordinary shares were issued and outstanding.

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

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

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

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

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

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

Large Accelerated Filer ü Accelerated Filer __ Non-Accelerated Filer __

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

U.S. GAAP __

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

Other__

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

Item 17 __ Item 18 __

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes __ No ü

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Note Regarding Forward-Looking Statements

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

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

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

- changes in the regulatory regime and policies for the PRC telecommunications industry, including without limitation changes in the regulatory policies of the Ministry of Industry and Information Technology, or the MIIT (which has assumed the regulatory functions of the former Ministry of Information Industry), the State-owned Assets Supervision and Administration Commission, or the SASAC, and other relevant government authorities of the PRC;
- changes in the PRC telecommunications industry resulting from the issuance of 3G licenses by the central government of the PRC;
- effects of tariff reduction and other policy initiatives from the relevant PRC government authorities;
- changes in telecommunications and related technologies and applications based on such technologies;
- the level of demand for telecommunications services, in particular, 3G services;
- competitive forces from more liberalized markets and our ability to retain market share in the face of competition from existing telecommunications companies and potential new market entrants;
- effects of competition on the demand and price of our telecommunications services;
- the availability, terms and deployment of capital and the impact of regulatory and competitive developments on capital outlays;

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

changes in the assumptions upon which we have prepared our projected financial information and capital expenditure plans; and changes in the political, economic, legal and social conditions in China, including the PRC Government s policies and initiatives with respect to economic development in light of the recent global economic downturn, foreign exchange policies, foreign investment activities and policies, entry by foreign companies into the Chinese telecommunications market and structural changes in the PRC telecommunications industry.

Please also see D. Risk Factors under Item 3.

Certain Definitions

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

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

As used in this annual report:

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

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

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

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

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

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not Applicable.

Item 2. Offer Statistics and Expected Timetable

Not Applicable.

Item 3. Key Information

A. Selected Financial Data

The following tables present selected historical financial data of our company as of and for the years ended December 31, 2008, 2009, 2010, 2011 and 2012. Except for amounts presented in U.S. dollars, the selected historical consolidated income statement data for the years ended December 31, 2010, 2011 and 2012 and the selected historical consolidated balance sheet data as of December 31, 2011 and 2012 set forth below are derived from, should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements, including the related notes, included elsewhere in this annual report on Form 20-F. The selected historical consolidated income statement data for the years ended December 31, 2008 and 2009 and consolidated balance sheet data as of December 31, 2008, 2009 and 2010 set forth below are derived from our audited consolidated financial statements that are not included in this annual report on Form 20-F. Our consolidated financial statements as of and for the years ended December 31, 2008, 2009, 2010, 2011 and 2012 have been prepared and presented in accordance with IFRS/HKFRS. The statistical information set forth in this annual report on Form 20-F relating to China is taken or derived from various publicly available government publications that have not been prepared or independently verified by us. This statistical information may not be consistent with other statistical information from other sources within or outside China.

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

We completed (i) the acquisition of the entire equity interest in China Unicom NewSpace Limited, or Unicom NewSpace, by China Unicom Broadband Online Limited Corporation, or Broadband Online, a wholly-owned subsidiary of CUCL, from Unicom Group, or the 2011 Acquisition, in December 2011, (ii) the acquisitions of fixed-line business in 21 provinces in southern China, the local access telephone business in Tianjin Municipality, three subsidiaries (together referred to as the Target Business) and certain other telecommunications assets from Unicom Group and Netcom Group (which was later merged with Unicom Group in January 2009), or the 2009 Acquisition, in January 2009, and (iii) a merger with China Netcom in October 2008. See A. History and Development of the Company Unicom Acquisitions and Sales 2011 Acquisition , A. History and Development of the Company Unicom Acquisitions and Sales Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies and Lease of Telecommunications Networks in 21 Provinces in Southern China and A. History and Development of the Company Sale of CDMA Business, Merger with China Netcom and Related Transactions Merger with China Netcom and Related Transactions under Item 4, respectively. Because (i) we and Unicom NewSpace were under common control of Unicom Group both prior to and after the 2011 Acquisition, (ii) we and the Target Business were under common control of Unicom Group both prior to and after the 2009 Acquisition and (iii) we and China Netcom were under the common control of the PRC Government both prior to and after the merger, each of the acquisitions and the merger is considered as a business combination of entities and businesses under common control and has been accounted for using merger accounting in accordance with Accounting Guideline 5 Merger accounting for common control combinations , or AG 5, issued by the HKICPA in November 2005. Upon our adoption of IFRS, we adopted the accounting policy to account for business combination of entities and businesses under common control using the predecessor values method, which is consistent with HKFRS. Given that the acquired entities and businesses mentioned above in this paragraph had always been under common control during all the periods presented, the assets and liabilities thereof are stated at predecessor values and are included in the consolidated financial statements included in this annual report on Form 20-F as if these entities and their businesses acquired had always been part of our company during all the periods presented.

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We completed the disposal of our CDMA business in October 2008. See A. History and Development of the Company Sale of CDMA Business, Merger with China Netcom and Related Transactions Disposal of CDMA Business and Related Transactions under Item 4. In accordance with IFRS/HKFRS 5, Non-Current Assets Held for Sale and Discontinued Operations , we recognized the CDMA business as discontinued operations and the CDMA business was presented separately as discontinued operations in our audited consolidated statement of income and statement of cash flows for the year ended December 31, 2008.

	As of or for the year ended December 31					
	2008 RMB	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2012 US$(1)
	(in millions, except for per share data)					
Consolidated Income Statement Data:						
CONTINUING OPERATIONS						
Revenue(2)						
Mobile services						
Service revenue	64,674	70,102	82,449	103,307	126,036	20,230
Sales of mobile telecommunications products	532	1,970	7,173	23,219	38,735	6,217
Total mobile telecommunications revenue	65,206	72,072	89,622	126,526	164,771	26,447
Fixed-line services						
Service revenue (2)	92,593	81,160	79,942	81,642	83,213	13,357
Sales of fixed-line telecommunications products	1,362	193	114	63	64	10
Total fixed-line telecommunications revenue	93,955	81,353	80,056	81,705	83,277	13,367
Unallocated amounts						
Service revenue (2)	701	601	1,692	936	878	141
Sales of other telecommunications products	5	-	-	-	-	-
	706	601	1,692	936	878	141
Total revenue	**159,867**	**154,026**	**171,370**	**209,167**	**248,926**	**39,955**
Total costs, expenses and others	**(156,444)**	**(141,870)**	**(166,786)**	**(203,569)**	**(239,405)**	**(38,427)**
Income from continuing operations before income tax	**3,423**	**12,156**	**4,584**	**5,598**	**9,521**	**1,528**
Income tax expenses	(1,664)	(2,692)	(883)	(1,371)	(2,425)	(389)
Income from continuing operations	**1,759**	**9,464**	**3,701**	**4,227**	**7,096**	**1,139**

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	As of or for the year ended December 31					
	2008 RMB	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2012 US$(1)
	(in millions, except for per share data)					
DISCONTINUED OPERATIONS(3)						
Income from discontinued operations	1,438	-	-	-	-	-
Gain on disposal of discontinued operations	26,135	-	-	-	-	-
Sub-total for discontinued operation	27,573	-	-	-	-	-
Net income	**29,332**	**9,464**	**3,701**	**4,227**	**7,096**	**1,139**
Earnings per share for income attributable to owners of the parent during the year						
-Basic earnings per share(4)	1.23	0.40	0.16	0.18	0.30	0.05
-Diluted earnings per share(4)	1.22	0.40	0.16	0.18	0.30	0.05
-Basic earnings per ADS(5)	12.35	3.98	1.57	1.79	3.01	0.48
-Diluted earnings per ADS(5)	12.25	3.96	1.56	1.78	2.96	0.48
Earnings per share for income from continuing operations attributable to owners of the parent during the year						
-Basic earnings per share(4)	0.07	0.40	0.16	0.18	0.30	0.05
-Diluted earnings per share(4)	0.07	0.40	0.16	0.18	0.30	0.05
-Basic earnings per ADS(5)	0.74	3.98	1.57	1.79	3.01	0.48
-Diluted earnings per ADS(5)	0.73	3.96	1.56	1.78	2.96	0.48
Earnings per share for income from discontinued operations attributable to owners of the parent during the year						
-Basic earnings per share(4)	1.16	-	-	-	-	-
-Diluted earnings per share(4)	1.15	-	-	-	-	-
-Basic earnings per ADS(5)	11.61	-	-	-	-	-
-Diluted earnings per ADS(5)	11.52	-	-	-	-	-
-Number of shares outstanding for basic earnings per share(4)	23,751	23,767	23,562	23,564	23,565	23,565
-Number of shares outstanding for diluted earnings per share(4)	23,941	23,895	23,704	23,785	24,664	24,664
-Number of ADS outstanding for basic earnings per ADS(5)	2,375	2,377	2,356	2,356	2,357	2,357
-Number of ADS outstanding for diluted earnings per ADS(5)	2,394	2,389	2,370	2,379	2,466	2,466
Consolidated Balance Sheet Data:						
Assets						
Cash and cash equivalents and short-term bank deposits	10,652	8,891	22,870	15,410	18,282	2,934
Property, plant and equipment	315,526	350,976	365,654	381,859	430,997	69,180
Inventories and consumables	1,147	2,412	3,728	4,651	5,803	931
Prepayments and other current assets	2,876	4,253	5,115	6,127	9,580	1,538
Financial assets at fair value through other comprehensive income	95	7,977	6,214	6,951	5,567	894
Proceeds receivable for the disposal of the CDMA business	13,140	5,121	-	-	-	-
Total assets	**380,438**	**417,008**	**441,269**	**456,233**	**516,124**	**82,844**
Liabilities						
Accounts payable and accrued liabilities	73,933	104,096	97,666	95,252	108,486	17,413
Long-term loans due to ultimate holding company	35,652	-	-	-	-	-
Payables in relation to the disposal of the CDMA business	4,232	7	-	-	-	-
Short-term bank loans	10,780	63,909	36,727	32,322	69,175	11,103
Commercial papers	10,000	-	23,000	38,000	38,000	6,099
Current portion of long-term bank loans	1,216	62	58	50	850	136
Current portion of other obligations	3,012	2,534	2,637	2,586	2,642	424
Current portion of corporate bonds	-	-	-	-	5,000	803
Current portion of promissory notes	-	-	-	-	15,000	2,408
Long-term bank loans	997	759	1,462	1,384	536	86

Promissory notes	-	-	15,000	15,000	-	-
Convertible bonds	-	-	11,558	11,118	11,215	1,800
Corporate bonds	7,000	7,000	7,000	7,000	2,000	321
Tax payable	11,370	908	1,483	1,232	1,820	292
Total liabilities	**183,143**	**210,571**	**235,608**	**250,335**	**306,619**	**49,216**
Shareholders equity	**197,295**	**206,437**	**205,661**	**205,898**	**209,505**	**33,628**
Share capital	2,329	2,310	2,310	2,311	2,311	371

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	As of or for the year ended December 31					
	2008 RMB	**2009 RMB**	**2010 RMB**	**2011 RMB**	**2012 RMB**	**2012 US$(1)**
	(in millions, except for per share data)					
Other Financial Data:						
CONTINUING OPERATIONS						
Net cash inflow from operating activities of continuing operations	57,296	57,732	66,376	66,491	70,620	11,335
Net cash outflow from investing activities of continuing operations	(61,030)	(85,310)	(76,619)	(82,970)	(99,480)	(15,967)
Net cash (outflow)/inflow from financing activities of continuing operations	(28,786)	30,197	19,824	8,988	32,004	5,137
Net cash (outflow)/inflow from continuing operations	**(32,520)**	**2,619**	**9,581**	**(7,491)**	**3,144**	**505**
DISCONTINUED OPERATIONS(3)						
Net cash inflow from operating activities of discontinued operations	656	-	-	-	-	-
Net cash inflow/(outflow) from investing activities of discontinued operations	29,489	(5,039)	5,121	-	-	-
Net cash outflow from financing activities of discontinued operations	-	-	-	-	-	-
Net cash inflow/(outflow) from discontinued operations	**30,145**	**(5,039)**	**5,121**	**-**	**-**	**-**
Net (decrease)/increase in cash and cash equivalents	**(2,375)**	**(2,420)**	**14,702**	**(7,491)**	**3,144**	**505**
Dividend declared per share	**0.20**	**0.16**	**0.08**	**0.10**	**0.12**	**0.02**

(1) The translation of RMB into U.S. dollars has been made at the rate of RMB6.2301 to US$1.00, representing the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board on December 31, 2012. The translations are solely for the convenience of the reader.

(2) Revenue and service revenue figures for the years ended December 31, 2008, 2009, 2010 and 2011 include fixed-line upfront connection fees for basic telephone access services that were eliminated by order of the former Ministry of Information Industry in July 2001. As of December 31, 2011, we made an accumulated appropriation of approximately RMB12,289 million to the statutory reserve in relation to fixed-line upfront connection fees, which were deferred and amortized over the expected customer service period of ten years. No upfront connection fees will be recognized after December 31, 2011.

(3) Results of our CDMA business have been disclosed as discontinued operations for the year ended December 31, 2008.

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

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

Exchange Rate Information

We publish our consolidated financial statements in Renminbi. Solely for the convenience of the reader, this annual report on Form 20-F contains translations of certain Renminbi and Hong Kong dollar amounts into U.S. dollars at specific rates. Prior to January 1, 2009, the exchange rate refers to the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate. For January 1, 2009 and all later dates and periods, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board, or the daily exchange rate. Unless otherwise indicated, conversions of Renminbi or Hong Kong dollars into U.S. dollars in this annual report are based on the exchange rate on December 31, 2012 (RMB6.2301 to

US$1.00 and HK$7.7507 to US$1.00). These translations should not be construed as representations that the Renminbi or Hong Kong dollar amounts could actually be converted into U.S. dollars at such rates or at all.

The daily exchange rates were RMB6.1772 = US$1.00 and HK$7.7637 = US$1.00, respectively, on April 19, 2013. The following table sets forth the high and low daily exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

Exchange Rate

	RMB per US$1.00		HK$ per US$1.00	
	High	**Low**	**High**	**Low**
October 2012	6.2877	6.2372	7.7549	7.7494
November 2012	6.2454	6.2221	7.7518	7.7493
December 2012	6.2502	6.2251	7.7518	7.7493
January 2013	6.2303	6.2134	7.7585	7.7503
February 2013	6.2438	6.2213	7.7580	7.7531
March 2013	6.2246	6.2105	7.7640	7.7551
April 2013 (up to April 19, 2013)	6.2078	6.1720	7.7652	7.7615

The following table sets forth the average exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2008, 2009, 2010, 2011 and 2012, calculated by averaging, in the case of 2008, the noon buying rates, or in the case of 2009 to 2012, the daily exchange rate, on the last day of each month during the relevant years.

Average Exchange Rate

	RMB per US$1.00	HK$ per US$1.00
2008	6.9193	7.7814
2009	6.8295	7.7513
2010	6.7603	7.7692
2011	6.4475	7.7793
2012	6.2990	7.7556

B. Capitalization and Indebtedness

Not Applicable.

C. Reasons for the Offer and Use of Proceeds

Not Applicable.

D. Risk Factors

Risks Relating to Our Business

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

The telecommunications industry in China has been rapidly evolving. Following the restructuring of the PRC telecommunications industry in 2008, we, along with China Mobile Communications Corporation, or China Mobile, and China Telecommunications Corporation, or China Telecom, have become full-service telecommunications service providers that operate both fixed-line and mobile telecommunications networks in China. See A. History and Development of the Company Restructurings of the Telecommunications Industry under Item 4. We face intense competition in each of our business lines from China Mobile and China Telecom and expect that this competition will further intensify. For mobile services, we compete with China Mobile and China Telecom in both 2G and 3G services. China Mobile is the largest mobile operator in China, while China Telecom has become our competitor after acquiring our CDMA business in the 2008 industry restructuring. For fixed-line services, we are a leading fixed-line operator in northern China, while China Telecom has a dominant market position in southern China. In addition, the PRC Government is in the process of introducing new policies that may intensify competition among the three telecommunications operators, such as the policies that would allow mobile subscribers to switch to the networks of another telecommunications operator with their existing numbers in certain areas in China.

We also face increasing competition from other service providers, such as cable television companies and Internet service providers, which compete against our broadband access, voice and messaging services and other services by offering telecommunications or related services. Such competition may further intensify due to recent policies of the PRC Government. For example, the PRC Government is in the process of initiating policies regarding the convergence of television broadcast, telecommunications and Internet access networks, and recently introduced a series of policies that encourage non-State-owned companies to enter the PRC telecommunications industry, including the proposals to permit companies engaged in the resale of mobile communications services to acquire mobile communications services from China Mobile, China Telecom or us and repackaging and rebranding such services for resale to end users.

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

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

We experienced continuing decline in the number of fixed-line local telephone subscribers and usage of our fixed-line local telephone services during the past several years due to the trend of mobile service substitution for fixed-line services. Consistent with trends in global markets in recent years, significant traffic from our fixed-line networks has been diverted to mobile networks, including mobile networks of other mobile operators. This trend has resulted in continuing decline in our revenues derived from our fixed-line local telephone services in recent years. Similarly, the trend of migration from GSM mobile services to 3G services may continue to have an adverse effect on our GSM mobile services, including a slow-down or reduction in the number of subscribers and usage. We have been taking various measures, such as attracting GSM subscribers of us and other telecommunications operators to migrate to our 3G network and promoting the integrated development of our GSM, 3G and fixed-line services, to retain our subscribers and service usages and to mitigate the potential subscriber and revenue loss in our fixed-line local telephone and GSM mobile services driven by these industry trends. However, we cannot assure you that such efforts will be successful. If the number of subscribers or the usage of our fixed-line local telephone or GSM mobile services declines, our financial condition, results of operations and growth prospects could be materially and adversely affected.

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

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

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

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

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

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

- manage technology migration in an effective manner, including effectively responding to a shortage of available Internet Protocol version 4 addresses and timely developing 3GPP Long Term Evolution, or LTE;
- obtain adequate financing;
- obtain relevant government licenses, permits and approvals;
- obtain adequate network equipment and software;
- retain experienced management and technical personnel;
- obtain sufficient spectrum frequencies, network numbers and other telecommunications resources controlled by the PRC Government;
- gain access to the sites for network construction or upgrade; and
- enter into interconnection and other arrangements with other operators.

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

The successful development of our 3G services is subject to market demand, consumer acceptance, technological challenges, competition on service fees, terminal subsidies and other marketing expenses, and other uncertainties, and expected benefits from investments in our 3G networks and technology may not be realized, and our 3G services may be adversely affected if next generation telecommunications services become available in the PRC.

We commercially launched our 3G service in October 2009 and we are still making investments in our 3G networks. However, we cannot assure you that:

- we will be able to gain access to sufficient sites for 3G network expansion, or we will not encounter unexpected technological difficulties in implementing the WCDMA technology;
- there will be sufficient demand for 3G services, or our 3G services will be more popular among potential subscribers than those of our competitors; or

our 3G services will generate an acceptable or commercially viable rate of return.

Any failure or delay in expanding and upgrading our 3G networks, any increase in the associated costs (including the costs and expenses that may be incurred as a result of the changes of our marketing and sales policies, including terminal subsidies, to meet the market demand), or any problem encountered in our operations of 3G services could hinder the recovery of our significant capital investment in 3G services, which could in turn have a material adverse effect on our financial condition, results of operations and growth prospects. For example, our depreciation and amortization expenses increased by 5.2% from RMB58.02 billion in 2011 to RMB61.06 billion in 2012, primarily due to our continuing expansion and upgrade of our 3G networks. Also, our selling and marketing expenses increased by 21.9% from RMB28.75 billion in 2011 to RMB35.04 billion in 2012, mainly attributable to the increased expenses on the promotion of our 3G services. If such expenses continue to increase without corresponding increase in the relevant service revenue, the profitability of our 3G services would be adversely affected.

In addition, it is uncertain as to the timing of the issuance of LTE licenses by the PRC Government and the type of the LTE-based technology to be mandated under these licenses. When the next generation telecommunications services become available in the PRC after the issuance of LTE licenses by the PRC Government, we expect that a number of 3G subscribers will migrate to next generation telecommunications networks as an industry trend, which could have an adverse effect on our 3G services.

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

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

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

Our network infrastructure and the networks with which we interconnect are vulnerable to potential damages or interruptions from floods, wind, storms, fires, power loss, severed cables, acts of terrorism and similar events. The occurrence of a natural disaster or other unanticipated problems at our facilities or any other failure of our networks or systems, or the networks to which we are interconnected, may result in consequential interruptions in services across our telecommunications infrastructure. For example, in May 2008, an earthquake registering 8.0 on the Richter scale struck Sichuan Province and its neighboring areas in China. In 2010, another major earthquake registering 7.1 on the Richter scale struck Qinghai Province. Our network equipment, including our base stations, in the affected areas sustained extensive damage, leading to service stoppage and other disruptions in our operations in those areas. Any future natural disasters may, among other things, significantly disrupt our ability to adequately staff our business, and may generally disrupt our services and operations. Moreover, our networks and systems and the networks with which we interconnect also require regular maintenance and upgrades. Such maintenance and upgrades may cause service disruptions. Network or system failures, as well as high traffic volumes, may also affect the quality of our services and cause temporary service interruptions. Any such future occurrence may result in customer dissatisfaction and materially adversely affect our financial condition, results of operations and growth prospects.

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

We continue to have a significant level of capital expenditure and debt service requirements necessary to implement our business strategies. We incurred RMB99.80 billion for capital expenditure in 2012. We expect to continue incurring significant capital expenditure in 2013 although we currently expect that the amount will be substantially lower than our capital expenditure in 2012. To the extent these capital expenditures exceed our cash resources, we will be required to seek additional debt or equity financing. In addition, pursuant to the terms of the 2015 Convertible Bonds, which was issued by Billion Express Investments Limited, our wholly-owned subsidiary, on October 18, 2010, each holder of the 2015 Convertible Bonds has the right to require Billion Express Investments Limited to redeem all of the 2015 Convertible Bonds held by such holder on October 18, 2013, or upon the occurrence of certain events (such as delisting or suspension of trading of our ordinary shares or ADSs, or change of control), at a redemption price equal to the principal amount of such 2015 Convertible Bonds together with accrued and unpaid interest to the date fixed for redemption. If the holders of a significant portion of the 2015 Convertible Bonds exercise their option to redeem all of the 2015 Convertible Bonds and to the extent the redemption amount exceeds our then cash resources, we will also be required to seek additional debt or equity financing. We cannot assure you that we will be able to obtain future financing on a timely basis and/or on acceptable terms. Even if we obtain such financing, our financing cost may increase significantly as a result of additional financing or higher interest rate. See Liquidity and Capital Resources under Item 5. Our failure to do so may adversely affect our financial condition, results of operations and growth prospects. Our ability to obtain acceptable financing at any time may depend on a number of factors, including, among others:

- our financial condition and results of operations;
- our creditworthiness and relationship with lenders;
- changes in credit policies, other government or banking policies that may affect credit markets in China;
- conditions of the economy and the telecommunications industry in China;
- conditions in relevant financial markets in China and elsewhere in the world; and
- our ability to obtain any required government approvals for our financings.

We may experience declines in ARPU for our telecommunications services.

In 2012, the ARPU for our mobile services increased by 1.3% from 2011, primarily because (i) the ARPU for our 3G services is significantly higher than that of our 2G services and (ii) the number of our 3G subscribers has increased as a percentage of the total number of our mobile subscribers. However, we have been experiencing declining ARPU for each of our GSM mobile services, 3G mobile services and fixed-lined services in the past few years, mainly due to (i) the pricing competition with other telecommunications operators in China; (ii) downward adjustments on some of the telecommunications tariffs by the PRC Government (which may continue in the future); (iii) many new subscribers are users with lower usage of telecommunications services; and (iv) the substitution effect of mobile Internet applications on our SMSs and other services. Our current GSM mobile services, 3G mobile services and fixed-lined services may continue to experience declining ARPU in the foreseeable future, which could have a material adverse effect on our financial condition and results of operations. Although we have been making efforts to mitigate those effects by allocating more resources to diversify our service offerings, particularly the value-added services, promote our integrated mobile and fixed-lined services to encourage more usage of our services, and develop our high-end customers, we cannot assure you that these efforts will be able to achieve the anticipated results.

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

Unicom Group indirectly controlled an aggregate of 75.57% of our issued share capital as of April 19, 2013 and all of our executive directors also serve as directors or executive officers of Unicom Group. As our controlling shareholder, subject to our articles of association and applicable laws and regulations, Unicom Group is effectively able to control our management, policies and business by controlling the composition of our board of directors and, in turn, indirectly controlling the selection of our senior management, determining the timing and amount of our dividend payments, approving significant corporate transactions, including mergers and acquisitions, and approving our annual budgets. The interests of Unicom Group as our controlling shareholder may conflict with our interests or the interests of our other shareholders. As a result, Unicom Group may cause us to enter into transactions or take (or fail to take) other actions or make decisions that may not be in our or our other shareholders best interests.

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

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

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

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

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

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Our management conducted an assessment of the effectiveness of our internal control over financial reporting and concluded that our internal control over financial reporting as of December 31, 2012 was effective. The effectiveness of our internal control over financial reporting as of December 31, 2012 has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report appearing on page F-2. However, we cannot assure you that, in the future, our management will continue to conclude that our internal control over financial reporting is effective. Even if our management concludes that our internal control over financial reporting is effective for future periods, our independent registered public accounting firm may disagree. If our independent registered public accounting firm is not satisfied with our internal control over financial reporting or the level at which our controls are documented, designed, operated, reviewed or evaluated, or if the independent registered public accounting firm interprets the relevant requirements, rules or regulations differently from us, then it may issue an adverse opinion. Any of these possible outcomes in the future could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our consolidated financial statements, which could materially adversely affect the market prices of our shares and ADSs.

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

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

On October 18, 2010, Billion Express Investments Limited, a wholly-owned subsidiary of our company, completed the issue of the 2015 Convertible Bonds, which are exchangeable into ordinary shares of our company. Pursuant to the subscription agreement with respect to the 2015 Convertible Bonds, the holders of the 2015 Convertible Bonds may, beginning on November 28, 2010, elect to convert its bonds into our ordinary shares at an initial conversion price of HK$15.85 per share, subject to certain adjustments. As of April 19, 2013, none of the 2015 Convertible Bonds has been converted into our ordinary shares. Assuming a full conversion of the 2015 Convertible Bonds at the current conversion price of HK$15.58 per share, the bonds would be convertible into 915,576,051 ordinary shares, representing approximately 3.74% of our enlarged issued and outstanding share capital as of April 19, 2013.

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

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

The NDRC initiated an anti-monopoly investigation in 2011 relating to the price charged for Internet dedicated leased line access service provided by us to Internet service providers. In response to the NDRC s investigation, we (i) provided the NDRC with pricing, volume, turnover and other information relevant to our Internet access bandwidth leasing services with Internet service providers for the year 2010, (ii) conducted a comprehensive self-inspection of our operations, and (iii) submitted to the NDRC a proposal for enhancement initiatives and an application for suspension of the NDRC s investigation. Through our comprehensive self-inspection of our operations, we have identified room for improvement in pricing management and relatively wide pricing variation, in respect of our services relating to the Internet dedicated leased line access service provided by us to the Internet service providers. In addition, the quality of interconnection between us and other backbone network operators also requires further improvement. In December 2012, we submitted a report to the NDRC regarding the improvement of our price management of Internet dedicated leased line access service. As of the date of this annual report, the NDRC has not informed us of any results or conclusions of the investigation. If the outcome of the NDRC s investigation is not in our favor, we may be subject to a fine, and if we become the target of any negative publicity, our reputation would be harmed, which may have a material adverse effect on the prices of our shares and ADSs.

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

Our business operations in China are subject to PRC business tax, which is assessed against substantially all of our operating revenue at a rate of 3%. On November 16, 2011, the Ministry of Finance, or the MOF, and the State Administration of Taxation, or the SAT, issued a pilot tax program under which the PRC business tax will be replaced with a value-added tax, or VAT, for certain pilot industries, including, among others, transportation services, research and development and technical services, information technology services and cultural and creative services. The pilot VAT program initially applied only to the pilot industries in Shanghai and has been subsequently expanded to eight additional regions of China. The application of the pilot VAT program may be expanded to other industries, including the telecommunications industry, and regions of China in the future. The timetable for applying the pilot program to the telecommunications industry and the applicable tax rate remain uncertain. If we become subject to the pilot VAT program, and, depending on the details of the program, our effective tax rate increases, our net income as well as our profitability may decrease.

Risks Relating to the Telecommunications Industry in China

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

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

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

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

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

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

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

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

Tariffs are the prices we charge our customers for our telecommunications services. We are subject to extensive government regulations on tariffs, especially those relating to our basic telecommunications services, such as mobile services, local and long distance fixed-line telephone services, data services, leased line services and interconnection agreements. In the past, we experienced significant downward adjustments on tariffs of telecommunications services as well as regulatory restrictions that have significant impacts on our tariff setting. For example: (i) in February 2008, the MIIT and the NDRC lowered the regulatory tariff cap for roaming services; and (ii) in 2009, the MIIT and the NDRC required us and other PRC telecommunications operators to offer certain fixed-line local telephone plans that are subject to a tariff cap. These changes adversely affected our revenue.

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

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

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

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

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

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

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

Risks Relating to Doing Business in China

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risk Relating to our ADSs

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

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

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Item 4. Information on the Company

A. History and Development of the Company

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

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

Restructurings of the Telecommunications Industry

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

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

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

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

Disposal of CDMA Business and Related Transactions

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

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

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

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

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

Merger with China Netcom and Related Transactions

Merger with China Netcom

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

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

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

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

Change of Company Name

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

Related Transactions

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

History and Corporate Development of China Netcom

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

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

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

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

Our Parent Company and Our Initial Public Offering

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

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

Unicom Acquisitions and Sales

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Mutual Investment with Telefónica, S.A.

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

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

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

2011 Acquisition

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

2012 Acquisition

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

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Our Relationship with Unicom Group

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

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

Set forth below is our shareholding structure as of April 19, 2013.

Two-Step Voting Arrangements

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

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

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

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

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

Capital Expenditures and Divestitures

See Liquidity and Capital Resources Capital Expenditures under Item 5 for information concerning our principal capital expenditures for the previous two years and those planned for 2013. We currently do not have any significant divestiture in progress.

B. Business Overview

General

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

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In 2012, 3G services continued to be the largest driver of our revenue growth. The total number of our 3G subscribers increased significantly from 40.02 million as of December 31, 2011 to 76.46 million as of December 31, 2012, and service revenue from our 3G services increased by 82.6% from RMB32.74 billion in 2011 to RMB59.80 billion in 2012. As a percentage of our total service revenue from mobile services, service revenue from 3G services increased from 31.7% in 2011 to 47.4% in 2012. In addition, our fixed-line broadband services continued to grow. Service revenue from fixed-line broadband services increased by 11.8% compared with 2011, accounting for 47.3% of total service revenue from the fixed-line services (in respect of 2011, excluding fixed-line upfront connection fees of RMB15 million).

Mobile Services

Our mobile services consist of GSM and 3G mobile services. Our revenue from mobile services, number of mobile services subscribers and usage of mobile services continued to grow in 2012, primarily driven by the growth of our 3G mobile services. Revenue from our mobile services was RMB164.77 billion in 2012, of which, service revenue from our mobile services increased by 22.0% from RMB103.31 billion in 2011 to RMB126.04 billion in 2012, accounting for 55.6% and 60.0% of our total service revenue in 2011 and 2012, respectively (excluding fixed-line upfront connection fees of RMB15 million in 2011).

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

	As of or for the year ended December 31,		
	2010	**2011**	**2012**
Number of subscribers (in thousands)	167,426	199,660	239,312
Estimated market share in our service areas(1)	19.9%	20.5%	21.6%
Average minutes of usage per subscriber per month (MOU)(2)	280.5	303.8	306.4
Average revenue per subscriber per month (ARPU) (in RMB)(3)	43.7	47.3	47.9

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

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

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

Our total number of mobile subscribers increased by 19.9% from 199.7 million as of December 31, 2011 to 239.3 million as of December 31, 2012, which was mainly due to the increase in our 3G subscribers. The MOU of our mobile services increased from 303.8 minutes in 2011 to 306.4 minutes in 2012. The increase was mainly because the subscribers of our 3G services, which has significantly higher MOU than our GSM services, as a percentage of the total number of our mobile subscribers has increased by 11.9 percentage points from 20.0% as of December 31, 2011 to 31.9% as of December 31, 2012. The overall ARPU of our mobile services increased by 1.3% from RMB47.3 in 2011 to RMB47.9 in 2012 despite the ARPU of each of our GSM and 3G services continued to decrease in 2012 compared to 2011. This was mainly due to the continuing change of revenue mix between our GSM services and 3G services. 3G services have a significantly higher ARPU than GSM services. As the service revenue from 3G services increased as a percentage of total service revenue from the mobile services from 31.7% in 2011 to 47.4% in 2012, the overall ARPU of our mobile services increased.

3G Mobile Services

In January 2009, our parent company, Unicom Group, received a 3G license to operate a 3G business based on the WCDMA technology nationwide in China and, with the approval of the MIIT, authorized our major wholly-owned subsidiary, CUCL, to operate this business. We launched our 3G operations on a trial basis in 55 cities in China under the brand WO in May 2009 and began commercial 3G operations in 285 cities in China on October 1, 2009. Our 3G mobile services primarily consist of 3G voice services and 3G non-voice services. Our 3G voice services enable our subscribers to make and receive phone calls with a mobile handset at any point within the coverage area of our mobile telecommunications networks. Our 3G non-voice services primarily include wireless Internet, mobile TV, mobile reading, mobile music, WO

App Store , WO Friend and other wireless information services.

Subscriber. Our total number of 3G subscribers increased by 91.0% from 40.02 million as of December 31, 2011 to 76.46 million as of December 31, 2012 (which includes 5.65 million wireless data card subscribers). The increase was primarily due to our efforts in developing our 3G services, including expanding and enhancing the sales capabilities of distribution channels, improving 3G tariff package offerings, optimizing 3G contract plans and promoting integrated 2G and 3G services.

MOU and ARPU. With respect to our 3G mobile services, MOU decreased by 22.5% from 635.3 minutes in 2011 to 492.3 minutes in 2012 and ARPU decreased by 21.7% from RMB110.0 in 2011 to RMB86.1 in 2012. The decrease in our MOU and ARPU is mainly attributed to our business strategy to increase the number of our subscribers, which resulted in an increased proportion of new subscribers who are users with relatively lower usage of telecommunications services.

3G Voice Services. The total 3G voice usage increased from 169.5 billion minutes in 2011 to 313.1 billion minutes in 2012, primarily as a result of the increase in our 3G subscribers.

3G Non-Voice Services. In 2012, 3G data usage reached 155.12 billion MB, representing an increase by 95.0% from 79.56 billion MB in 2011, which was largely due to an increase in the number of our 3G subscribers, as well as the popularity of smartphones and our efforts in developing innovative new applications and promoting subscribers data usage. The average data usage per 3G smartphone user per month was 256 MB in 2012. As of December 31, 2012, we had 18.94 million registered subscribers of WO App Store and 22.15 million registered subscribers of mobile music.

GSM Mobile Services

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

Subscriber. Our total number of GSM mobile subscribers increased by 2.0% from 159.64 million as of December 31, 2011 to 162.86 million as of December 31, 2012. We believe that this growth was attributable to a number of factors, including, among others, (i) the continued growth of the Chinese mobile telecommunications market, and (ii) our sales and marketing efforts in retaining existing subscribers and expanding our subscriber base.

MOU and ARPU. With respect to our GSM mobile services, MOU decreased by 4.5% from 256.9 minutes in 2011 to 245.4 minutes in 2012, and ARPU decreased by 8.6% from RMB37.4 in 2011 to RMB34.2 in 2012. The decrease in our MOU and ARPU was primarily attributable to (i) the migration of certain mid- and high-end 2G subscribers to 3G network, (ii) the intensified competition among the telecommunications operators in China and (iii) the fact that a significant portion of our new users consists of users from rural areas, many of whom tend to have less usage of telecommunications services and to be more cost-sensitive than users from urban areas.

GSM Voice Services. The total voice usage of our GSM mobile services decreased by 1.9% from 484.76 billion minutes in 2011 to 475.7 billion minutes in 2012, which was primarily due to a decrease in the MOU of our GSM mobile services, despite the slight increase in the total number of our GSM mobile subscribers.

GSM Non-Voice Services. Our GSM mobile Internet subscribers increased by 18.0% from 63.60 million as of December 31, 2011 to 75.07 million as of December 31, 2012, representing an increase in the penetration rate from 39.8% to 46.1%. The data usage volume of our GSM subscribers increased by 77.4% from 160.6M in 2011 to 284.9M in 2012, which was mainly attributable to our efforts in enhancing GPRS data volume management and bundled sales and marketing, as well as the launch of EDGE, AMR and paging services for all users. A total of 61.23 billion SMSs were transmitted by our GSM mobile subscribers in 2012, representing a decrease of 18.2% compared to 2011, which was principally due to the migration of certain mid- and high-end GSM subscribers to 3G network, as well as the substitution of mobile Internet applications, such as QQ , micro message and micro blog, for our SMS service.

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Fixed-Line Services

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

Our revenue from fixed-line services was RMB83.28 billion in 2012, of which service revenue from our fixed-line services increased by 1.9% from RMB81.63 billion in 2011 (excluding fixed-line upfront connection fees of RMB15 million) to RMB83.21 billion in 2012, accounting for 43.9% and 39.6% of our total service revenue in 2011 and 2012, respectively. In 2012, we achieved stable development in our fixed-line services, mainly attributable to the continued rapid growth in our fixed-line broadband services and our efforts in integrated mobile and fixed-line services. However, the trend of mobile services substitution of fixed-line voice services had a continuing negative impact on our fixed-line voice services.

Fixed-Line Broadband Services and Data Communications Services

Fixed-Line Broadband Services

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

In 2012, we further upgraded our fixed-line broadband network and improved access speed. As of December 31, 2012, our fixed-line broadband subscribers increased by 14.8% to 63.87 million, of which subscribers with 4M-and-above bandwidth accounted for 63.8% of all fixed-line broadband subscribers, representing an increase of 22.5 percentage points from the end of 2011. We also continued implementing our marketing strategy to offer integrated fixed-line broadband services with increased-speed and enhanced customer service. The total number of our subscribers of fixed-line broadband content and applications reached 19.06 million, accounting for 29.8% of all fixed-line broadband subscribers. Our fixed-line broadband ARPU decreased by 3.5% from RMB56.4 in 2011 to RMB54.4 in 2012, primarily due to intensified competition from other PRC telecommunications operators and broadband network providers.

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

	As of December 31,		
	2010	**2011**	**2012**
Number of fixed-line broadband subscribers (in thousands)	47,224	55,651	63,869

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Data Communications Services

We are a leading provider of data communications services in our fixed-line northern service region. We offer data products, such as those based on digital data networks, or DDN, frame relay, asynchronous transfer mode, or ATM, and Internet protocol-virtual private network, or IP-VPN. We also offer leased line products, including domestic and international leased circuits. Our customers for these services include government entities, large financial institutions and other domestic and multinational businesses, Internet service providers and other telecommunications operators. As of the end of 2012, we have established business cooperation relationships with more than 170 overseas operators and multinational corporate customers to provide various international data communications products and services, such as international voice and data services. In 2012, we continued to offer full-scale data communications services to international operators and domestic and international corporate customers. We have also improved our capabilities to offer cross-border data communications and integrated information services.

Fixed-line Voice Services

Our fixed-line voice services consist of local voice, domestic long distance, international long distance, interconnection and PHS services. As domestic mobile operators launched service packages at competitive prices, mobile roaming tariffs were lowered, and the migration of voice usage from fixed-line to mobile continued. In 2012, leveraging on our company s full-service advantage, we enhanced market development in areas of customer premises network, or CPN, and rural markets, as well as strengthened the marketing of integrated services. For example, we actively promoted bundled products and services marketed under the brand WO Family . As of December 31, 2012, the number of our WO Family subscribers increased by 6.50 million to 14.88 million, which resulted in an increase of 1.7% in the number of our residential, business and public telephone fixed-line voice subscribers from December 31, 2011.

As of December 31, 2012, the number of our fixed-line subscribers (including PHS subscribers) decreased by 1.0% to 91.96 million from 92.85 million as of December 31, 2011. The decrease was primarily due to a decrease in the number of our PHS subscribers. The following table sets forth the information of our fixed-line subscribers as of the dates indicated:

	As of December 31,		
	2010	2011	2012
	(in thousands)		
Number of fixed-line subscribers(1)			
Residential	59,681	59,363	59,311
Business	15,494	17,723	19,496
PHS	13,423	7,787	5,422
Public telephones	8,037	7,978	7,728
Total	96,635	92,851	91,957

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

The PRC Government issued a policy in January 2009 requiring the current wireless access systems operating on the spectrum used by PHS services to be cleared and removed from such spectrum within three years. We are in the process of encouraging our PHS subscribers to upgrade their PHS plans to our mobile plans. As a result of these efforts, the number of our PHS subscribers significantly decreased over the past few years.

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Local Voice Services

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

	For the Year Ended December 31,		
	2010	**2011**	**2012**
Usage of local calls (pulse in millions)[1]			
Total usage	156,724	125,944	81,820
Internet dial-up usage	1,162	668	324
Total usage excluding Internet dial-up usage	155,562	125,275	81,496

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

Long Distance Voice Services

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

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

	For the Year Ended December 31,		
	2010	**2011**	**2012**
Total minutes of domestic long distance calls (minutes in millions)[1]			
Traditional	17,349	14,033	12,170
VoIP	8,879	7,036	5,520
Total	26,228	21,069	17,690

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

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

	For the Year Ended December 31,		
	2010	**2011**	**2012**
International long distance outbound call minutes (minutes in millions)[1][2]			
Traditional	269	214	282
VoIP	290	270	229
Total	559	484	511

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

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

Fixed-Line Value-Added Services

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

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Interconnection and Roaming Arrangements

Interconnection

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

We earn interconnection fees for terminating or transiting calls that originate from other domestic telecommunications operators networks and pay interconnection fees to other operators for calls originating from our networks that are terminated on their networks. We earn and pay such fees in respect of mobile calls, local and domestic and international long distance calls and Internet services. We are required to pay the interconnection fees regardless of our ability or inability to collect the tariff from our subscribers. Interconnection charges are accrued on a monthly basis based on the actual call volume and applicable tariff rates.

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

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

Roaming

We provide roaming services, which allow our subscribers to access our mobile services while they are physically outside of their registered service area or in the coverage areas of other mobile networks in other countries and regions with which we have roaming arrangements. As of March 31, 2013, we had roaming arrangements for (i) GSM international voice and SMS services with 570 operators in 248 countries and regions, (ii) GPRS international inbound data services with 481 operators in 203 countries and regions and for international GPRS outbound data services with 434 operators in 188 countries and regions, and (iii) 3G services with 326 WCDMA operators in 127 countries and regions.

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

Networks

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

Mobile Networks

Our mobile network generally consists of:

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

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

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

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

We have deployed GSM and WCDMA mobile networks. Our GSM mobile network mainly operates at 900 MHz. We have also deployed GSM technology that operates at 1800 MHz in major metropolitan areas to supplement the capacity of our existing mobile network. We use 2x6 MHz of spectrum in the 900 frequency band and 2x20 MHz of spectrum in the 1800 frequency band for our GSM network in most of our service areas. We use 2x15 MHz of spectrum in the 2100 frequency band for our WCDMA mobile network.

As of December 31, 2012, we had approximately 411,000 GSM base stations, representing an increase by 9.0% from December 31, 2011.