



# 2014 INTERIM RESULTS

**7 AUGUST, 2014**

CHINA UNICOM (HONG KONG) LIMITED  
[www.chinaunicom.com.hk](http://www.chinaunicom.com.hk)

- **Overall Results**
- **Operating & Financial Performance**

# Overall Financial Results

(RMB millions)	1H2013	1H2014 <sup>(3)</sup>	YoY
<b>Operating Revenue<sup>(1)</sup></b>	<b>144,307</b>	<b>149,569</b>	<b>3.6%</b>
<i>of which: Mobile</i>	100,648	103,920	3.3%
<i>Fixed-line</i>	43,291	45,227	4.5%
<b>Service Revenue<sup>(2)</sup></b>	<b>116,475</b>	<b>126,973</b>	<b>9.0%</b>
<i>of which: Mobile</i>	72,853	81,343	11.7%
<i>Fixed-line</i>	43,253	45,207	4.5%
<b>EBITDA</b>	<b>42,177</b>	<b>47,689</b>	<b>13.1%</b>
<i>EBITDA as % of Service Revenue</i>	36.2%	37.6%	1.4pp
<b>Net Profit</b>	<b>5,317</b>	<b>6,689</b>	<b>25.8%</b>
<b>Basic EPS (RMB)</b>	<b>0.225</b>	<b>0.281</b>	<b>24.9%</b>

(1) Due to unallocated items, operating revenue is not equal to the sum of mobile and fixed-line operating revenues, both of which are external revenues.

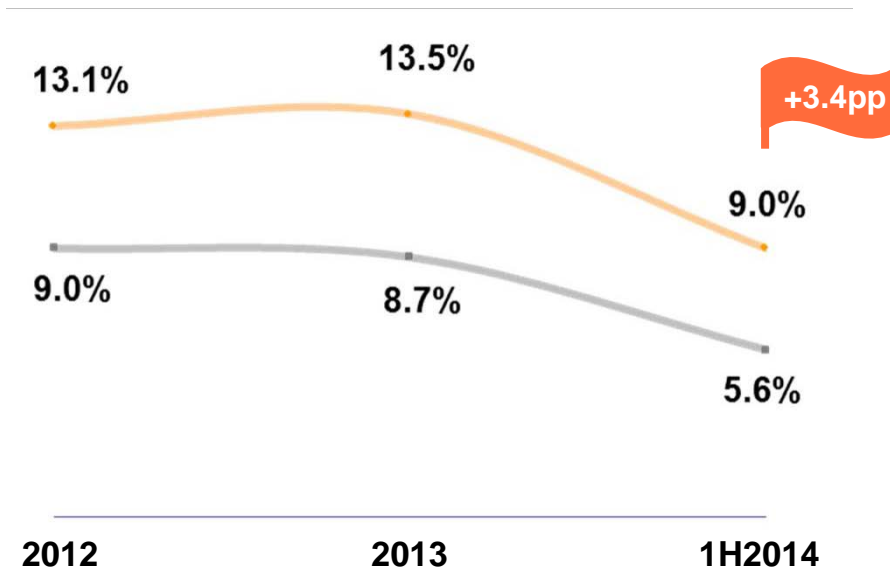
(2) Due to unallocated items, service revenue is not equal to the sum of mobile and fixed-line service revenues.

(3) Business tax was replaced with value-added tax (VAT) in the telecom sector from 1 June 2014.

# Service Revenue Growth Continuing to Exceed Industry Average

## Service Revenue Growth (yoy)

■ The Company ■ Industry Average <sup>(1)</sup> ■ Difference



- Growth rate exceeding industry average by **3.4pp**
- Lower growth rate mainly due to:
  - VAT implementation from 1 June 2014<sup>(2)</sup>
  - Transformation of operating model driven by VAT implementation
  - Adjustment of interconnection settlement standards<sup>(3)</sup>
  - More complex competitive environment

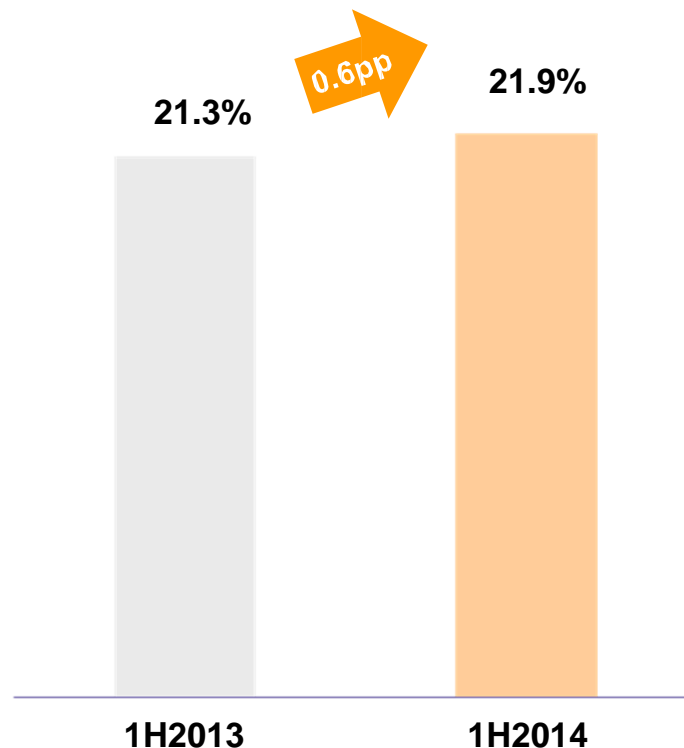
(1) Industry averages are the then growth rates in key business revenues released by MIIT.

(2) Business tax was replaced with value-added tax (VAT) in the telecom sector from 1 June 2014.

(3) Public telecommunications network interconnection settlement standards of basic telecommunications operators were adjusted from 1 January 2014.

# Steadily Rising Market Share in Service Revenue

## Market Share in Service Revenue<sup>(1)</sup>



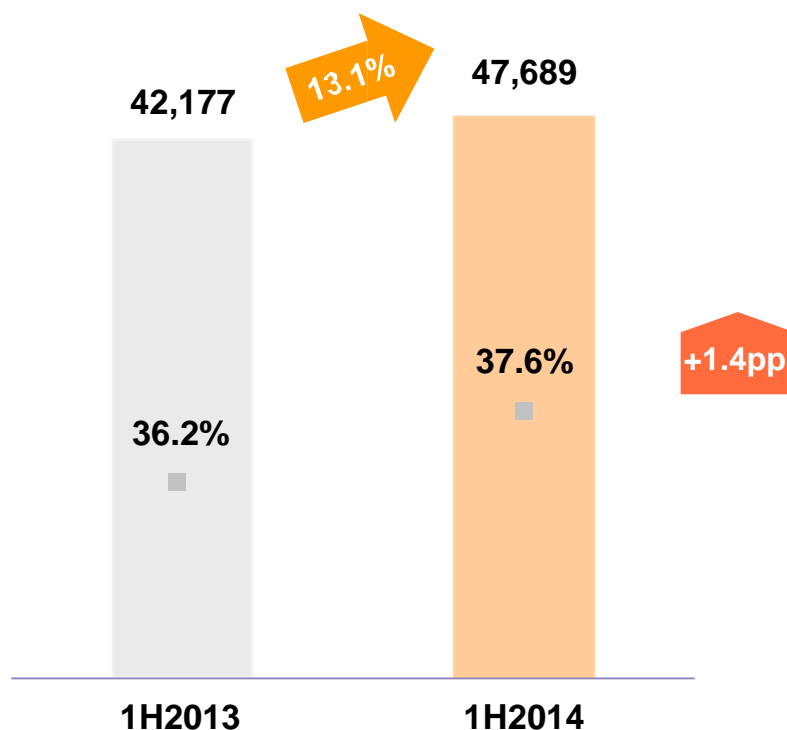
- Continuous robust service revenue growth led to further increase in market share.
- Market share in service revenue reached **21.9%** in 1H2014, yoy up by **0.6pp**.

(1) For analysis purpose and to be consistent with MIIT's computation, the Company's service revenues are adjusted by adding back business tax and government surcharges that occurred prior to the VAT implementation. Market share in service revenue is defined as the Company's Adjusted Service Revenue / Industry Service Revenue (MIIT).

# Continuous Improvement in Profit & Profitability

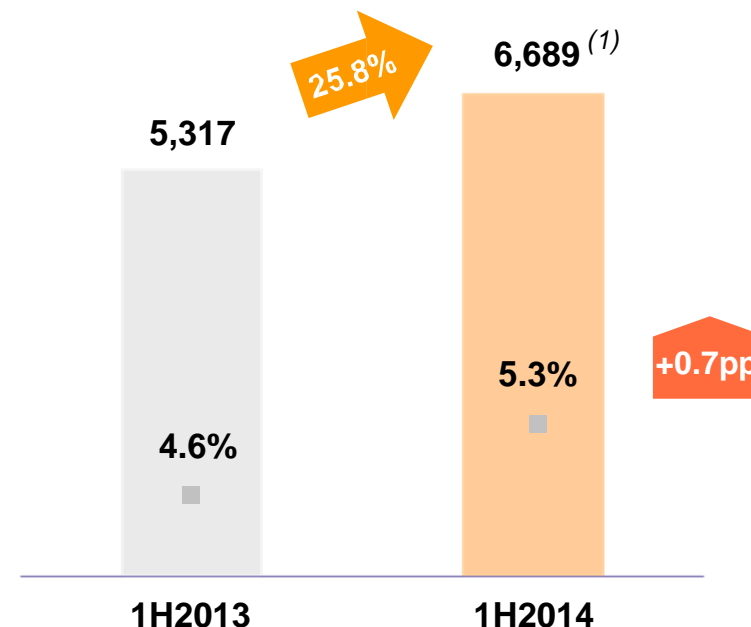
## EBITDA

(RMB millions)



## Net Profit

(RMB millions)



■ EBITDA as % of Service Revenue

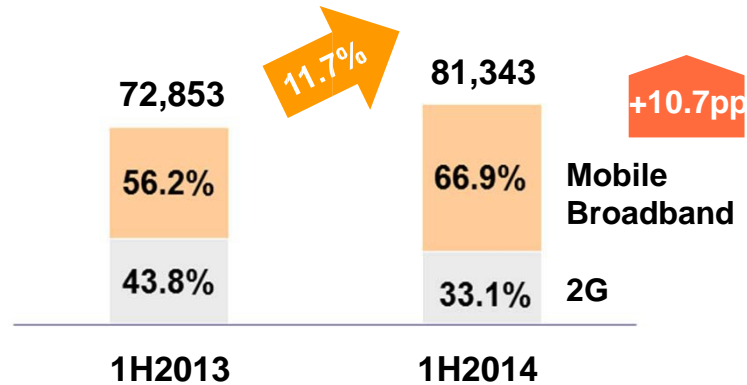
■ Net Profit as % of Service Revenue

(1) 1H2014 net profit was achieved under the following circumstance: a) operating expense of RMB1,151 million arising from PHS asset disconnection in 1H2014; b) an exchange loss of RMB358 million was booked in 1H2014 while an exchange gain of RMB725 million was booked in 1H2013; c) a corporate pension contribution of RMB443 million was booked in 1H2014.

# Further Optimised Business Structure <sup>(1)</sup>

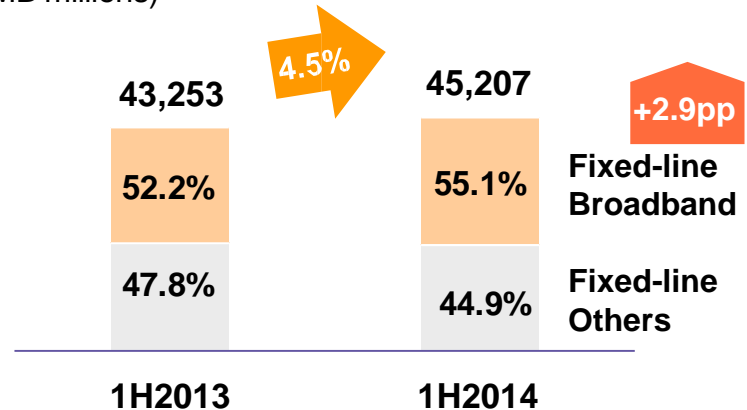
## Mobile broadband accounting for 67% of mobile service revenue

(RMB millions)



## Fixed-line broadband driving steady fixed-line service revenue growth

(RMB millions)



✓ **Non-voice's Share of Service Revenue:** <sup>(2)</sup>

**59.5%**

+4.2pp

✓ **Mobile's Share of Service Revenue:**

**64.1%**

+1.6pp

✓ **Mobile Broadband & Fixed-line Broadband's Share of Service Revenue:**

**62.4%**

+7.9pp

● YoY Change

(1) Mobile broadband includes both 3G and 4G.

(2) Non-voice service revenue refers to service revenue other than voice, monthly fee and interconnection revenue.

# Continuing to Lead in User's Network Experience

To enhance leading position in mobile broadband network that can provide faster speed, broader coverage and better user experience

## Strengthening construction of high-quality network to further improve network capabilities

### Mobile Broadband Network:

Building 4G/3G-integrated high-quality network; deploying TD-LTE / LTE FDD hybrid networks in 16 cities

### # of 4G/3G Base Stations:

**491 thousand** yoy +34.9%

### # of Fixed-line Broadband Access Ports:

**125 million** yoy +8.7%

### Of which FTTH/B's share:

**73.8%** yoy +10.8pp

### Transmission Network:

Further enhancing transmission network capability to meet LTE demand

### Whole WCDMA Network:

downlink speed up to 21Mbps

+

### DC HSPA+ Network Area:

downlink speed up to 42Mbps

+

### LTE Network Area:

downlink speed up to 150Mbps

+

### Fiber-optic Broadband Network:

speed up to 100Mbps



# Carrying Out Further Reform in Key Areas

## The industry is undergoing profound changes...

- VAT implementation
- TD-LTE licensing
- LTE hybrid network trial in 16 cities
- Establishment of “Tower Company”
- Mobile service resale trial
- Mobile Internet
- OTT
- .....

## ...driving the Company for further innovation & transformation

### Transforming Sales & Marketing Model

- Leveraging on VAT implementation to deepen transformation of sales & marketing model so as to further improve the quality of its subs and business
- Optimising product portfolio, terminal offering and distribution channels
- Starting with “woego” B2B Platform to consolidate value-chain resources and provide effective, transparent and fair end-to-end operational support

### Centralising Business Operation

- Leveraging on cBSS and starting with 4G business to promote centralised operation with a focus on market, customers and local business units
- Creating responsive and centralised business decision process and realising direct operational management from the headquarters to local business units

### Stimulating Vitality of Local Business Units

- Promoting centralised, flattened and specialised management
- Establishing end-to-end direct and dynamic resource allocation mechanism
- Strengthening investment project progression planning
- Improving comprehensive evaluation system
- Improving evaluation and incentive measures

**Proactively respond to market changes and fully implement the strategy of “Leading Mobile Broadband and Innovating Operational Integration”**

<p><b>Opportunities</b></p>	<ul style="list-style-type: none"> <li>As the key driving force of China’s economic transformation, the information industry still enjoys important strategic opportunities with strong market demand.</li> </ul>	<p><b><u>Development Targets:</u></b></p> <p>Continue to Lead in Growth Rate<sup>(2)</sup></p> <p>Continue to Raise Market Share<sup>(2)</sup></p> <p>Continue to Improve Profitability</p> <p>Continue to Enhance Overall Strength</p>
<p><b>Innovative Development</b></p>	<ul style="list-style-type: none"> <li>Centering on market and customer needs, increase efforts to innovate product offering, sales &amp; marketing and distribution.</li> <li>Accelerate business development in mobile broadband and fixed-line broadband.</li> </ul>	
<p><b>Reform</b></p>	<ul style="list-style-type: none"> <li>Carry out continuous reform in: sales and marketing, investment and construction, hiring and remuneration, resource allocation, etc.</li> <li>Explore reform opportunities in: mixed ownership, Internet finance, mobile service resale, etc.</li> </ul>	
<p><b>Value Creation</b></p>	<ul style="list-style-type: none"> <li>Constantly enhance enterprise value and create more value for shareholders.</li> </ul>	

(1) For possible risks and uncertainties, please refer to Forward-looking Statements on Page 29.

(2) Expected growth rate and market share in service revenue.

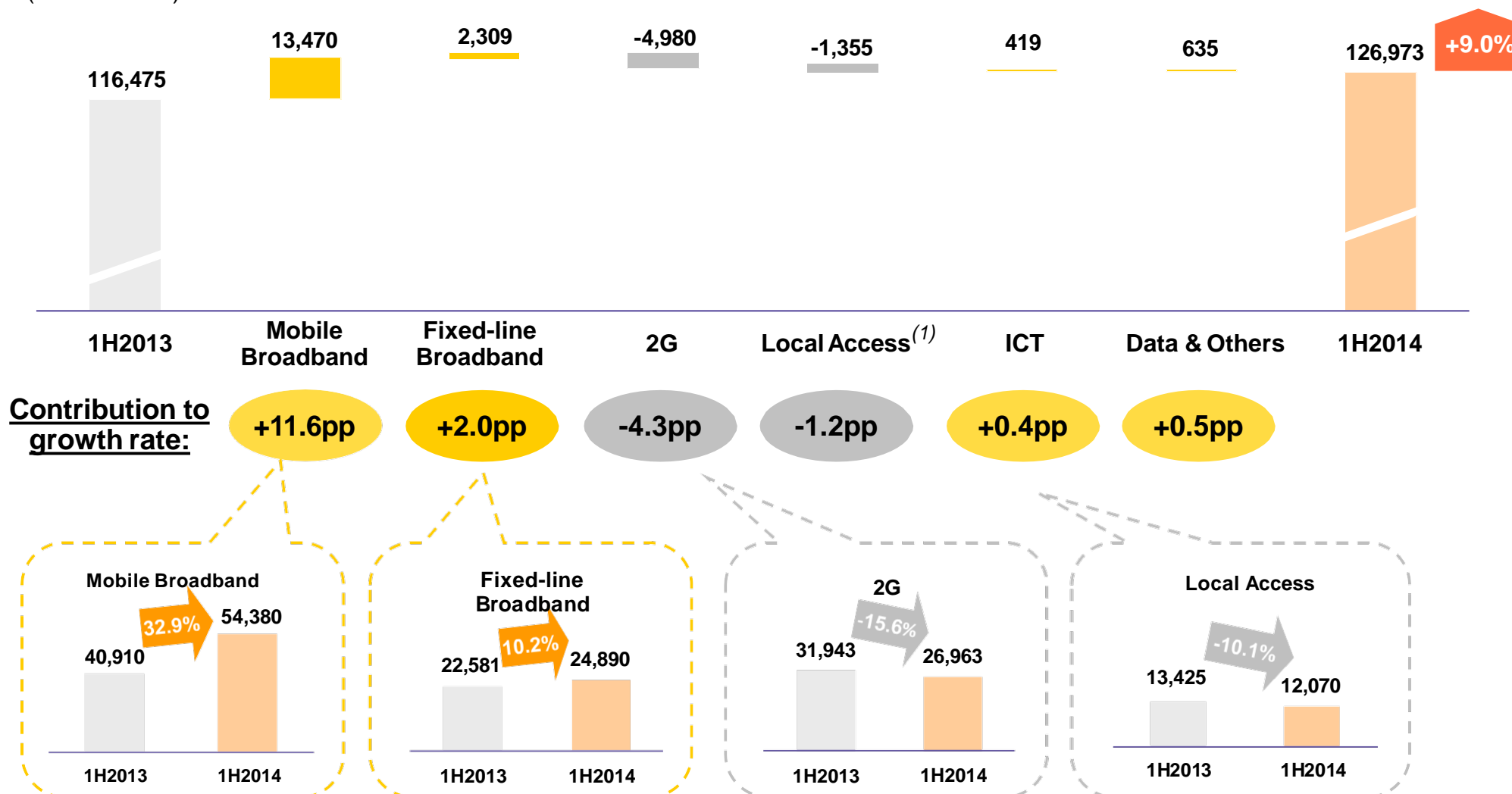
- Overall Results
- **Operating & Financial Performance**

# Overall Business

## mobile & fixed-line broadbands driving continuous revenue growth

### Service Revenue

(RMB millions)



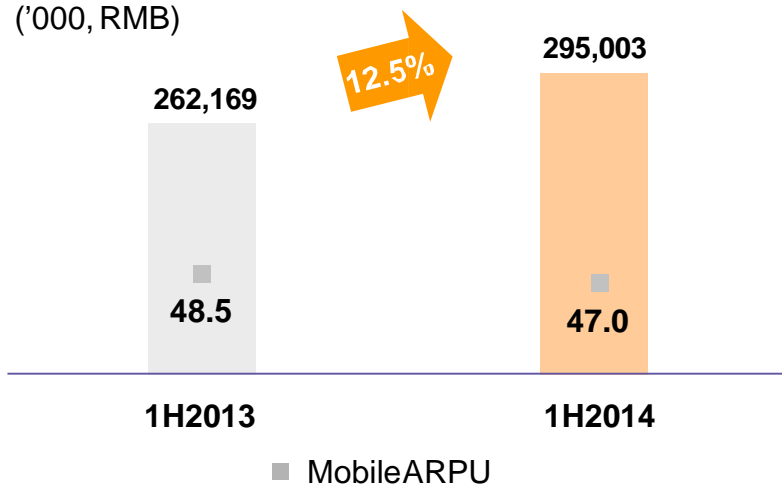
(1) Including local voice, long distance, fixed-line VAS and interconnection revenues.

# Mobile Business

## continuous double-digit growth in mobile subs & revenue

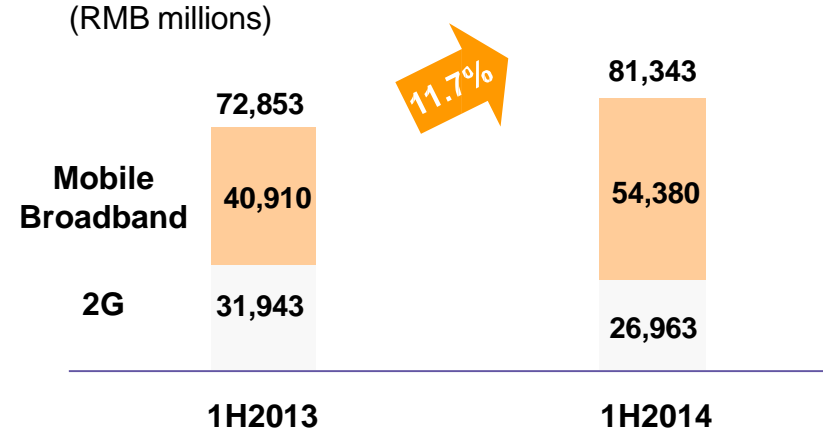
### Mobile Subs

('000, RMB)



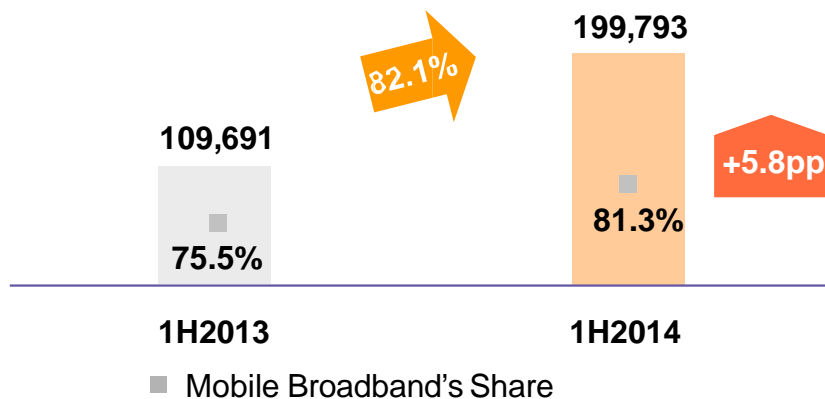
### Mobile Service Revenue

(RMB millions)

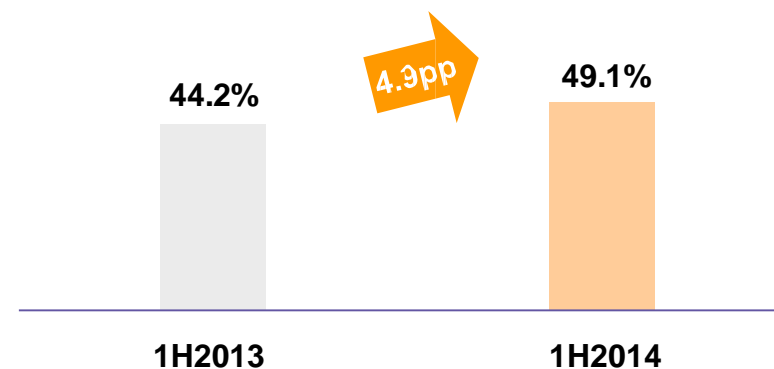


### Data Usage by Handset Users

(MB millions)



### Non-voice as % of Mobile Service Revenue <sup>(1)</sup>



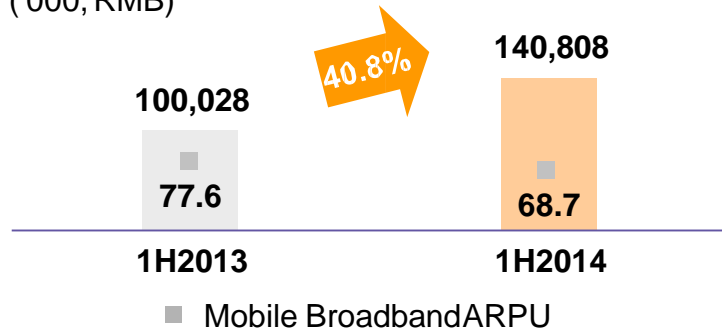
(1) Non-voice service revenue refers to service revenue other than voice, monthly fee and interconnection revenue.

# Mobile Business

## promoting user experience-oriented integrated 4G/3G operation

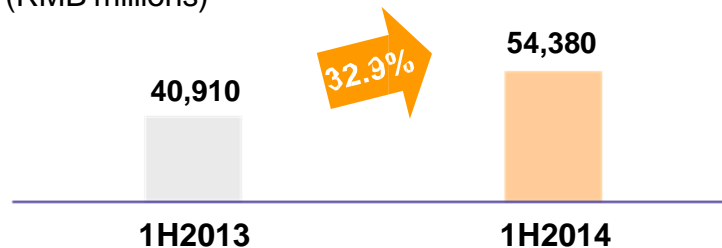
### Mobile Broadband Subs

('000, RMB)

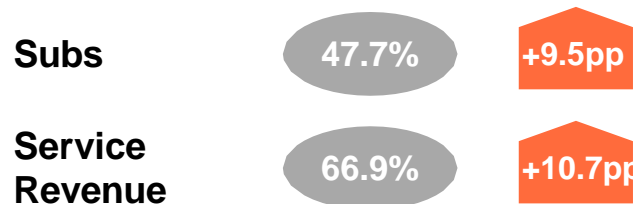


### Mobile Broadband Service Revenue

(RMB millions)



### Mobile Broadband's Share of Mobile Business



#### Leading network experience

- Building mobile broadband network with leading user experience
- Established end-to-end network optimisation system
- Focusing on user experience

#### Simplified product portfolio

- Optimising product portfolio based on different types of customers and channels
- User experience driven, large data package, flexible, convenient

#### Exerted terminal advantages

- Enhancing LTE smartphone procurement to exert differentiated advantages
- Optimising contracted packages

#### Enhanced customer retention

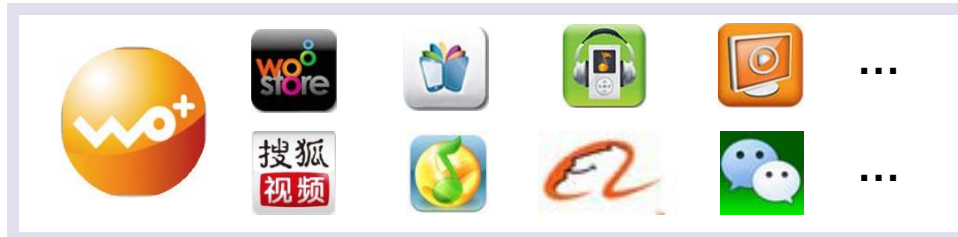
- Big data-based precision customer retention
- User-friendly customer service interface

#### Centralised operational support

- Integrated and centralised operation supported by cBSS
- Effective operational process with risk control

# Mobile Business

## open and cooperative approach to tap data value



**WO+ Platform**

- Developed WO+ open platform to facilitate cooperation with Internet firms
- Put online over 300 apps of 100 partners

**Product aggregation**

- Partnering with 48 apps providers to develop telecom and Internet bundled products
- Enriching apps portfolio to improve customer perception

**Internet Orientation**

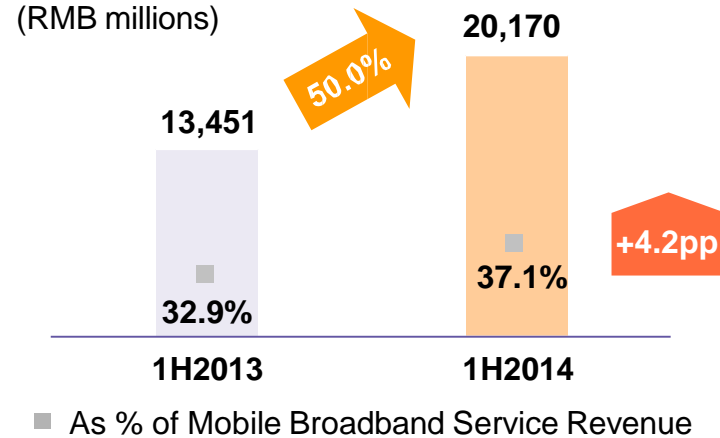
- Standardised cooperative model: local access for across network support
- Diversifying sales & marketing by exploring social network potential
- From pipe provider to platform provider

**Product Optimisation**

- Optimising the pricing of data products
- Designing data products that are more convenient and better targeted

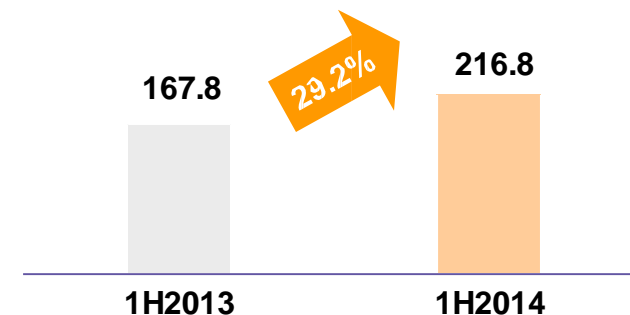
### Data Revenue from 3G/4G Handset Users

(RMB millions)



### Data Usage per 3G/4G Handset User per Month

(MB)



# Mobile Business

## proactively and steadily carrying out mobile service resale trial

On 17 May 2013, MIIT issued “Notice on Mobile Service Resale Trial”, allowing qualified companies to apply for mobile service resale trial.

### Signed Resellers

- The Company signed mobile service resale agreements with 14 companies in 2013.
- The Company signed agreements with another 11 companies as of July 2014.

### Acquired Subscribers

- The first reseller launched its service in May 2014.
- As of July 2014, 12 resellers opened service and acquired 180 thousand subscribers.

### Cooperative Model

- Volume-based wholesale model
- Giving resellers more room to design flexible & convenient packages for targeted customers

### Quality of Service

- Local access for across network support
- Leading customer perception

### An Open and Win-win Cooperation

Optimised cooperative model

Enhanced business support

Clarified business processes

Improved customer perception



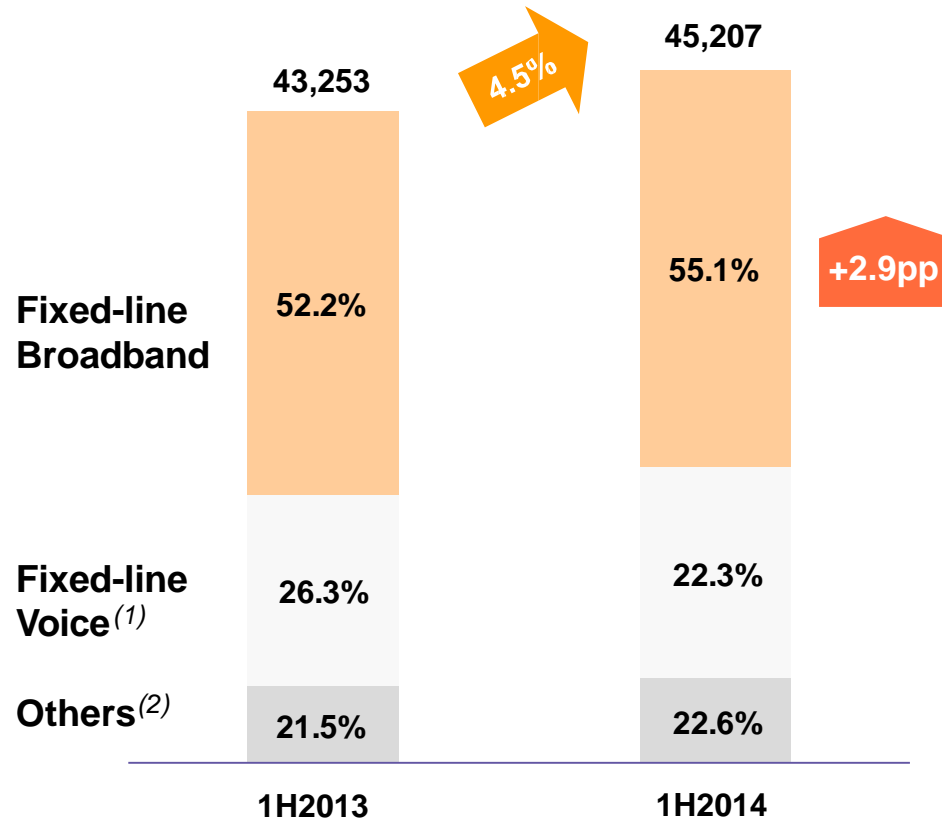


# Fixed-line Business

## enhancing product & service quality to ensure steady fixed-line business growth

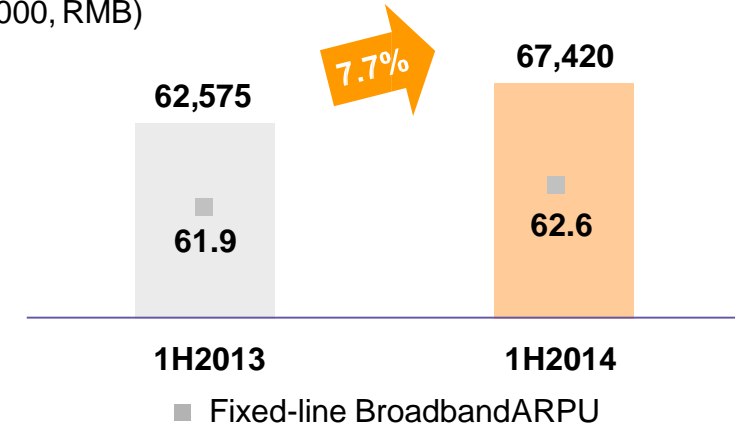
### Fixed-line Service Revenue

(RMB millions)



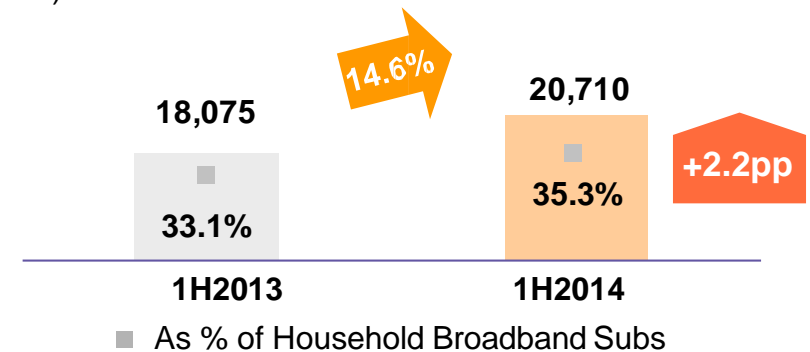
### Fixed-line Broadband Subs & ARPU

('000, RMB)



### “WO Family” Subs & Penetration

('000)

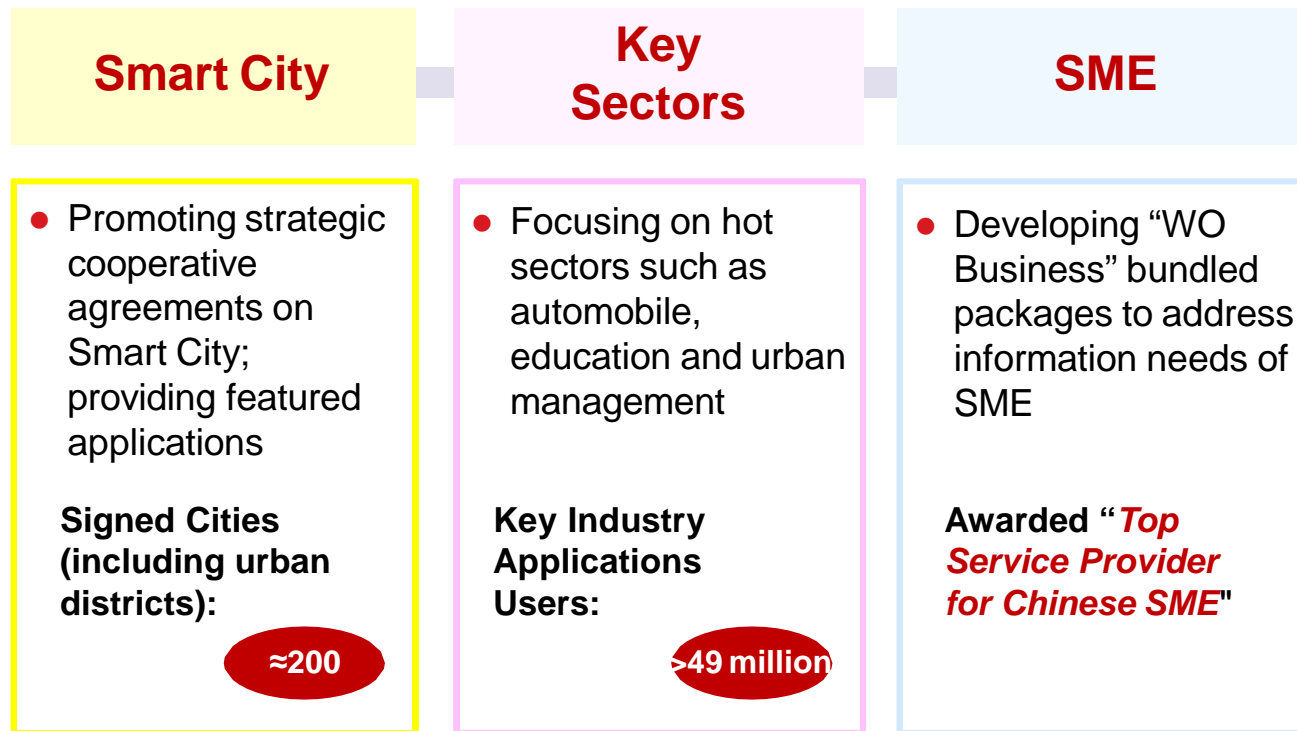


(1) Including voice, monthly fee and interconnection revenue.

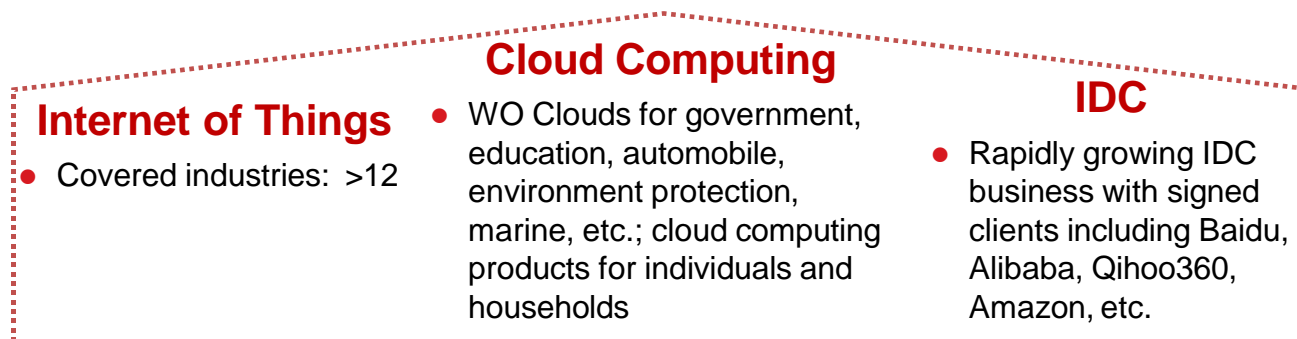
(2) Including fixed-line VAS, ICT, data and others.

# Enterprise Customer Business

further strategic arrangement on innovative businesses and new breakthrough in key industry applications



- In April 2014, the Company signed the Cooperative Agreement with Cubic Telecom to jointly provide auto information total solution to Tesla’s clients in China





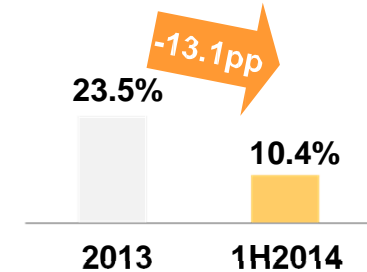
# Sales & Marketing Model

## leveraging on VAT implementation to promote transformation of sales & marketing model

### 1 Transforming development mode to improve development quality

- ✓ Optimising handset subsidy packages and commission management
- ✓ Optimising structure of distribution channel

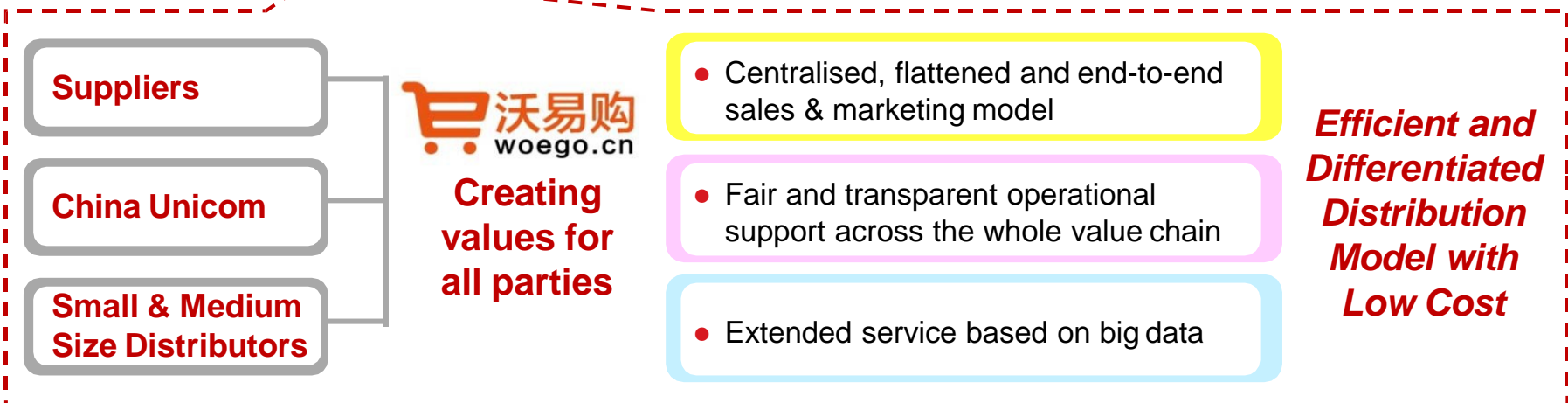
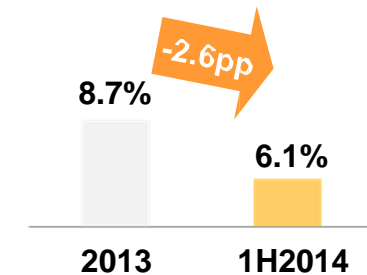
Selling & marketing expenses (including handset subsidy) yoy growth trend



### 2 Exploring integrated online and offline operation

- ✓ Online channel becoming main force for customer retention and after-sales service
- ✓ Introduced specific products for online channel and enhanced online sales & marketing
- ✓ Launched innovative “woego” B2B Platform for small and medium size distributors

Handset subsidy as % of mobile broadband service revenue



# Costs & Expenses

up by 2.6%, lower than 3.6% growth in operating revenue

(RMB millions)	1H2014	YoY ▲	YoY %
<b>Operating Expenses</b>	<b>138,762</b>	<b>2,726</b>	<b>2.0%</b>
<b>Adjusted Operating Expenses <sup>(1)</sup></b>	<b>116,412</b>	<b>7,969</b>	<b>7.3%</b>
Interconnection Charges <sup>(2)</sup>	7,565	-2,352	-23.7%
Depreciation & Amortisation	36,882	2,976	8.8%
Networks, Operations & Support	18,035	2,042	12.8%
Employee Benefit	16,969	2,035	13.6%
Selling & Marketing	23,824	3,439	16.9%
Handset Subsidy	3,332	-888	-21.0%
G&A and Others	9,805	717	7.9%
<b>Net Finance Costs</b>	<b>2,574</b>	<b>1,180</b>	<b>84.6%</b>
<b>Net Other Income <sup>(3)</sup></b>	<b>604</b>	<b>389</b>	<b>180.9%</b>
<b>Total Costs &amp; Expenses</b>	<b>140,732</b>	<b>3,517</b>	<b>2.6%</b>

(1) In 1H2014, costs of telecom products sold amounted to RMB25,682 million, down by 19.3% yoy; sales of telecom products amounted to RMB22,596 million, down by 18.8% yoy; and loss of telecom products sold amounted to RMB3,086 million, of which handset subsidy RMB3,332 million. Adjusted operating expenses are defined as operating expenses minus costs of telecom products sold plus handset subsidy.

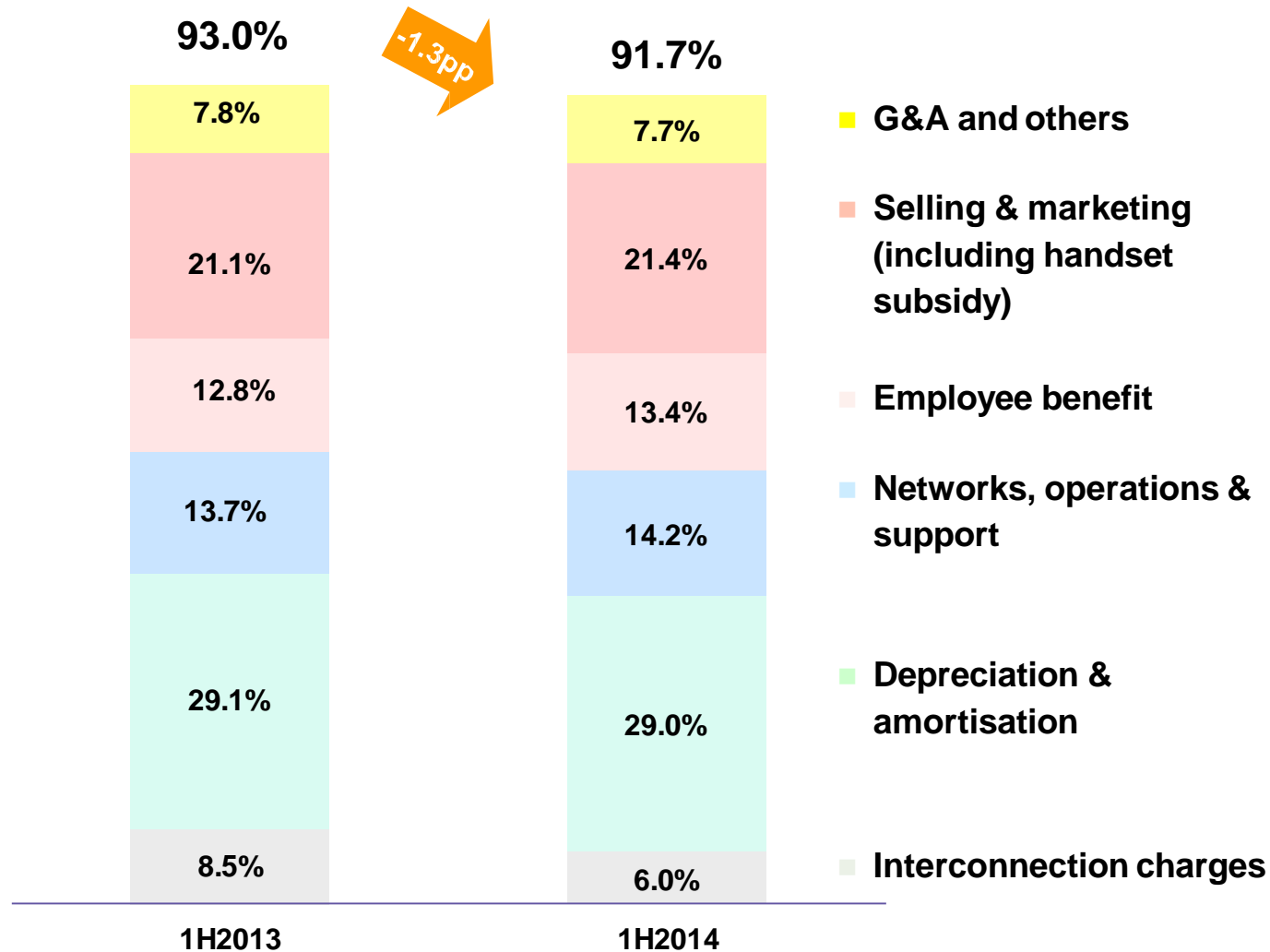
(2) Public telecommunications network interconnection settlement standards of basic telecommunications operators were adjusted from 1 January 2014.

(3) Net other income is defined as other income minus other costs.

# Adjusted Operating Expenses

its share of service revenue to decrease further

## Adjusted Operating Expenses as % of Service Revenue



# Cash Flow & CAPEX

## continuously growing FCF

### Operating Cash Flow

(RMB millions)



### CAPEX

(RMB millions)



### Free Cash Flow

(RMB millions)



1H2013

1H2014

1H2013

1H2014

1H2013

1H2014

# Balance Sheet

## more solid financial status

### Total Interest-bearing Debt

(RMB millions)

144,614  
-5.3%  
136,953

YE2013

1H2014

### Liabilities-to-Assets Ratio

58.6%  
-1.6pp  
57.0%

YE2013

1H2014

### Net-Debt-to-Cap Ratio

33.9%  
-1.2pp  
32.7%

YE2013

1H2014



**THANK YOU!**



# Appendix I: Income Statement <sup>(1)(2)</sup>

(RMB millions)	1H2013	1H2014		1H2013	1H2014
<b>Revenue:</b>			Including: Selling & Marketing	(20,385)	(23,824)
Service Revenue	116,475	126,973	Costs of Telecom Products Sold	(31,813)	(25,682)
Sales of Telecom Products	27,832	22,596	<b>Total Operating Expenses</b>	(136,036)	(138,762)
<b>Total Operating Revenue</b>	144,307	149,569	<b>Operating Profit</b>	8,271	10,807
<b>Operating Expenses:</b>			Finance Costs	(1,475)	(2,709)
Interconnection Charges	(9,917)	(7,565)	Interest Income	81	135
Depreciation & Amortisation	(33,906)	(36,882)	Net Other Income	215	604
Networks, Operations & Support	(15,993)	(18,035)	<b>Profit Before Income Tax</b>	7,092	8,837
Employee Benefit	(14,934)	(16,969)	Income Tax	(1,775)	(2,148)
SG&A and Others	(61,286)	(59,311)	<b>Net Profit</b>	5,317	6,689

(1) Business tax was replaced with value-added tax (VAT) in the telecom sector from 1 June 2014.

(2) Public telecommunications network interconnection settlement standards of basic telecommunications operators were adjusted from 1 January 2014.

# Appendix II: Selected Balance Sheet

(RMB millions)	YE2013	1H2014		YE2012	1H2014
<b>Non-current Assets (selected):</b>			<b>Non-current Liabilities (selected):</b>		
PPE	431,625	415,929	Long-term Bank Loans	481	461
Lease Prepayments	8,038	7,996	Corporate Bonds	2,000	2,000
Goodwill	2,771	2,771	Convertible Bonds	11,002	11,165
Deferred Income Tax Assets	6,734	8,259	<b>Total Non-current Liabilities:</b>	<b>15,033</b>	<b>24,149</b>
Financial Assets at Fair Value through Other Comprehensive Income	6,497	6,870	<b>Current Liabilities (selected):</b>		
Other Assets	21,296	21,333	Accounts Payable & Accrued Liabilities	102,212	95,138
<b>Total Non-current Assets:</b>	<b>476,961</b>	<b>463,211</b>	Taxes Payable	2,634	4,772
<b>Current Assets (selected):</b>			Commercial Papers	35,000	10,000
Inventories & Consumables	5,536	4,410	Short-term Bank Loans	94,422	103,268
Accounts Receivable	14,842	16,527	Advances from Customers	49,841	48,502
Prepayments & Others	9,664	11,018	<b>Total Current Liabilities:</b>	<b>295,239</b>	<b>270,123</b>
Cash and Cash Equivalents	21,506	19,284	<b>Total Liabilities</b>	<b>310,272</b>	<b>294,272</b>
<b>Total Current Assets</b>	<b>52,210</b>	<b>53,418</b>	<b>Total Equity</b>	<b>218,899</b>	<b>222,357</b>
<b>Total Assets</b>	<b>529,171</b>	<b>516,629</b>	<b>Total Liabilities and Equity</b>	<b>529,171</b>	<b>516,629</b>

# Appendix III: Key Operating Metrics

		1H2013	1H2014
<b>Mobile Business</b>	Subscribers ('000)	262,169	295,003
	ARPU (RMB) <sup>(1)</sup>	48.5	47.0
	Handset Users MOU (minutes) <sup>(1)</sup>	289.4	281.6
<b>of which: Mobile Broadband Business</b>	Subscribers ('000)	100,028	140,808
	ARPU (RMB) <sup>(1)</sup>	77.6	68.7
	Handset User DOU (MB) <sup>(1)</sup>	167.8	216.8
<b>Fixed-line Local Access</b>	Subscribers ('000)	89,695	86,071
	ARPU (RMB) <sup>(1)</sup>	20.8	19.2
<b>Fixed-line Broadband</b>	Subscribers ('000)	62,575	67,420
	ARPU (RMB) <sup>(1)</sup>	61.9	62.6

(1) Average number of subscribers for a period = sum of all monthly average number of subscribers in the period divided by total number of months in the period; average number of subscribers for a given month = (the number of subscribers at the end of previous month + the number of subscribers at the end of the given month) / 2.

# Forward-looking Statements

Certain statements contained in this presentation may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. These risks, uncertainties and other factors include: the uncertainties in the development of the telecommunications industry and related technology in the PRC; the level of the market demand for telecommunications services; changes in the competitive environment, regulatory environment and the PRC government’s regulatory and/or industry policy for the telecommunications industry; competitive forces from more liberalized markets and the Company’s ability to retain market share in the face of competition from existing telecommunications companies and potential new market entrants; effects of competition on the demand and price of the Company’s telecommunications services; the effects of tariff reduction initiatives; the result of the anti-monopoly investigation by the National Development and Reform Commission of the PRC relating to the price charged for Internet dedicated leased line access service provided by the Company to Internet service providers; the availability, terms and deployment of capital; changes in the assumptions upon which the Company has prepared its projected financial information and capital expenditure plans; changes in the political, economic, legal, tax and social conditions in the PRC; and other factors that will affect the execution of the Company’s business plans and strategies, as well as the Company’s business condition and financial results.