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Announcement

Replacement of Business Tax with Value-added Tax

This announcement is made pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Part XIVA of the Securities and Futures Ordinance (Cap. 571).

China Unicom (Hong Kong) Limited (the “Company”) notes that the Ministry of Finance and the State Administration of Taxation of the People’s Republic of China jointly issued a notice (the “Notice”) dated 29 April 2014 after the market closed on 30 April 2014 pursuant to which the pilot programme regarding the replacement of business tax with value-added tax (“VAT”) will be implemented nationwide for the telecommunications industry (the “VAT Reform”) from 1 June 2014.

The Notice sets out the specific scope of taxable telecommunications services and tax rates applicable to various telecommunications services. The VAT rate for basic telecommunications services will be 11% and the VAT rate for value-added telecommunications services will be 6%. The Notice also sets out specific requirements for the calculation of certain items, including goods or telecommunications services bundled with the provision of telecommunications services, telecommunications services provided to offshore entities by onshore entities or individuals, and telecommunications services provided through bonus points redemption.

The VAT Reform in the telecommunications industry is a major national reform which aims to promote an adjustment of the economic structure and transformation of enterprises and is expected to be beneficial for the transformation and upgrade of the business model for the telecommunications industry. Given that the VAT is excluded from the price, in comparison with the business tax regime, the Company’s operating revenues, costs and expenses, and capital expenditure are expected to decrease after the implementation of the VAT Reform. The specific impact of the VAT Reform is as follows:

1. In the short-term, after the implementation of the VAT Reform, as the Company’s main business falls within the scope of the VAT Reform, there will be a small decline in its operating revenues. Due to the impact of the input VAT, there will also be a small decline in the Company’s costs and expenses. As (a) the input VAT on certain costs and expenses (such as labour costs) will not be deductible, (b) business tax will still be chargeable on certain costs and expenses (such as construction costs, finance and insurance expenses), (c) the input VAT on certain costs and expenses will not be fully deductible due to the qualification of the Company’s partners as VAT taxpayers and the actual collection of invoices, and (d) the decrease in depreciation due to the deductibles from investment activities may not be realised yet, the

decrease in costs and expenses of the Company due to the implementation of the VAT Reform is expected to be smaller than the decrease in operating revenues of the Company in the same period. If the VAT Reform had been implemented in the financial year ended 31 December 2013, the Company would have experienced a significant decline in its net profits in the same financial year. Moreover, as the comprehensive tax burden of the Company (including business tax, VAT and corporate income tax) would have been reduced, the VAT Reform would have had a positive impact on the Company's cash flows in the financial year ended 31 December 2013.

2. In the long-term, in view of the Company's continuous pursuance of strategic transformation, improvements to its revenue structure, regular replacement of assets and the gradual decrease in depreciation due to the deductibles from the input VAT on the investments in fixed assets, the continuous expansion of the scope of the VAT Reform to other industries and the continual improvement in corporate management, it is expected that the adverse impact of the VAT Reform will become less significant on the operating revenues of the Company and the costs and expenses will gradually be significantly reduced.

In order to mitigate the short-term adverse impact of the VAT Reform on the net profits of the Company, the Company plans to continue to implement its "mobile broadband leadership and integrated innovation" strategy, enhance the contribution of the non-voice services business to the Company's total revenues, optimise the marketing models, promote the professional operation and strengthen tax management and the capability of the support system.

Subject to the effects from various factors including revenue structure, input tax deductions from VAT and timing of implementation of tax collection and management policies, the actual effects on the level of change in the Company's operating revenues, costs and expenses, net profits and cash flows after implementation of the VAT Reform may be substantially different from the above analysis. The above analysis does not represent the actual impact of the VAT Reform on the Company's financial results or the Company's estimate of any such actual impact. Therefore, the shareholders and investors of the Company should exercise caution in understanding the above analysis, and should not place undue reliance on it.

By Order of the Board
CHINA UNICOM (HONG KONG) LIMITED
CHU KA YEE
Company Secretary

Hong Kong, 30 April 2014

As of the date of this announcement, the Board comprises:

Executive directors:	Chang Xiaobing, Lu Yimin, Tong Jilu and Li Fushen
Non-executive director:	Cesareo Alierta Izuel
Independent non-executive directors:	Cheung Wing Lam Linus, Wong Wai Ming, John Lawson Thornton, Chung Shui Ming Timpson, Cai Hongbin and Law Fan Chiu Fun Fanny