

CHINA UNICOM LTD
Form 20-F
June 28, 2005

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

☐ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR
15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-15028

CHINA UNICOM LIMITED

(Exact Name of Registrant as Specified in Its Charter)

N/A

(Translation of Registrant's Name Into English)

Hong Kong

(Jurisdiction of Incorporation or Organization)

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

(Address of Principal Executive Offices)

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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	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.

12,607,241,000 Ordinary Shares as of December 31, 2004.

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 ☒ No ☐

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 ☐ Item 18 ☒

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

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This annual report for the year ended December 31, 2004 contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. Such forward-looking statements include, without limitation, our strategy and future plan, our capital expenditure plan, our future business condition and financial results, our abilities to expand network capacity and increase network efficiency, our ability to develop new technology applications and offer new services, our ability to realize the advantages of code division multiple access, or CDMA, technology and successfully execute our CDMA-related strategy, our ability to leverage our position as an integrated telecommunications operator and expand into new businesses and new markets, future growth of market demand for our services, the future prospects of and our ability to integrate the acquired business, and future regulatory and other developments in the Chinese telecommunications industry.

Such forward-looking statements reflect our current views with respect to future events. Actual results may differ materially from information contained in the forward-looking statements as a result of a number of factors, including, without limitation, any changes in the regulatory policies of the Ministry of Information Industry, or MII, the State-owned Assets Supervision and Administration Commission, or SASAC, and other relevant government authorities in China, the effects of competition on the demand and price of our telecommunications services, any changes in telecommunications and related technology and applications based on such technology, and changes in political, economic, legal and social conditions in China including the Chinese government's policies with respect to economic growth, consolidations of and other structural changes in the telecommunications industry, foreign exchange, foreign investment and entry by foreign companies into China's telecommunications market. In addition, our future network expansion and other capital expenditure and development plans are dependent on numerous factors, including the availability of adequate financing on acceptable terms, the adequacy of currently available spectrum or availability of additional spectrum and the adequate and timely supply of equipment when required. Please also see the D. Risk Factors section under Item 3.

CERTAIN DEFINITIONS

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As used in this annual report, references to us, we, our, the Company and Unicom are to 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 us, we, our and Unicom are to the telecommunications businesses in which our predecessors were engaged and which were subsequently assumed by us. All references to Unicom Group are to 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. Please also see A. History and Development of the Company under Item 4 for our current shareholding structure.

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

A.

Selected Financial Data

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The following table presents our selected consolidated income statement data for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 and our selected consolidated balance sheet data as of December 31, 2000, 2001, 2002, 2003 and 2004. The selected consolidated balance sheet data as of December 31, 2003 and 2004 and income statement and cash flow data for the years ended December 31, 2002, 2003 and 2004 have been derived from our audited consolidated financial statements included in this annual report. The selected consolidated balance sheet data as of December 31, 2000, 2001 and 2002 and income statement and cash flow data for the years ended December 31, 2000 and 2001 have been derived from our audited consolidated financial statements that are not included in this annual report. The financial statements for periods prior to our restructuring and initial public offering in 2000 reflect historical results of operations and financial positions of the businesses that were transferred to us from Unicom Group in 2000 in preparation of our initial public offering.

Our financial statements are prepared in accordance with generally accepted accounting principles in Hong Kong, or HK GAAP. Under HK GAAP, prior to 2003, deferred taxation was accounted for at the current taxation rate in respect of timing differences between net income as computed for taxation purposes and net income as stated in the income statement. A deferred tax asset was not recognized unless the related benefits are expected to crystallize in the foreseeable future. Upon the adoption of SSAP 12 in 2003, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted at the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Under HK GAAP, the adoption of SSAP 12 in 2003 represents a change in accounting policy which has been applied retrospectively so that the comparative data presented have been restated to conform to the changed policy. A detailed description is set forth in Note 3 to the financial statements.

In addition, financial statements prepared in accordance with HK GAAP vary in certain material respects from generally accepted accounting principles in the United States, or US GAAP. In accordance with HK GAAP, we adopted the purchase method to account for our acquisitions from Unicom Group of certain cellular businesses and assets held by Unicom New Century Telecommunications Corporation Limited, or Unicom New Century, Unicom New World Telecommunications Corporation Limited, or Unicom New World, and China Unicom International Limited, or Unicom International. The acquisitions of Unicom New Century, Unicom New World and Unicom International became effective on December 31, 2002, December 31, 2003 and in September 2004, respectively, as described in A. History and Development of the Company under Item 4. Accordingly, our consolidated income statement and, except as otherwise noted, all other HK GAAP financial information for the year 2004 presented in this annual report include the operating results of Unicom New Century and Unicom New World for the year ended December 31, 2004 and the operating results of Unicom International from the effective date of the acquisition to December 31, 2004, but our consolidated income statement and all other HK GAAP financial information for the year 2003 presented in this annual report do not include the operating results of Unicom New World for the year ended December 31, 2003. Under the purchase method, our consolidated balance sheet as of December 31, 2003 includes the financial position of Unicom New Century and Unicom New World and our consolidated balance sheet as of December 31, 2004 also includes the financial position of Unicom International. In contrast, under US GAAP, these acquisitions would be accounted for as transfers of entities under common control. The financial statements prepared under US GAAP would retroactively be restated for all periods presented on a combined basis as if the acquisitions had been in effect since inception, whereby related assets and liabilities of the acquired businesses would be accounted for at historical cost and the results of operations of the acquired businesses would be included in the consolidated financial statements for the earliest period presented.

Under HK GAAP, the sale of Guoxin Paging Corporation Ltd., or Guoxin Paging, on December 31, 2003 by us to Unicom Group has been accounted for as a sale of discontinued operation. The difference between the sale proceeds and the carrying amount of net assets of Guoxin Paging as of December 31, 2003 was recorded as the loss on sale of discontinued operation in our consolidated income statement for the year ended December 31, 2003. The operating results of Guoxin Paging from January 1, 2003 to the effective date of the sale of Guoxin Paging were included in our consolidated income statement for the year ended December 31, 2003. Under US GAAP, the sale of Guoxin Paging to Unicom Group is considered a transfer of business between entities under common control and accounted for at historical cost of the net assets transferred, after reduction, if appropriate, for an indicated impairment of value. In addition, under US GAAP, the results of operations of a component or segment of an entity that has been disposed of should be reported in discontinued operations as a separate component of income, separated from continuing operations, in the period in which the disposal occurred and in prior periods. Accordingly, all the operating results of Guoxin Paging have been grouped into and reported in the income statement as Discontinued operation - Loss from discontinued operation under US GAAP.

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See Note 40 to the consolidated financial statements included in this annual report for a summary of the principal differences between HK GAAP and US GAAP that have a significant effect on our financial statements.

	As of or for the year ended December 31									
	2000		2001		2002		2003		2004	2004
	RMB		RMB		RMB		RMB		RMB	US\$(1)
	(in millions, except number of shares and per share data)									
Income Statement Data:										
<u>Hong Kong GAAP (As restated)⁽²⁾</u>										
Operating revenue (Turnover):										
Cellular Business	12,188		20,505		30,613		56,927		70,799	8,554
-GSM Business	12,188		20,505		27,388		40,304		46,579	5,628
-CDMA Business					3,225		16,623		24,220	2,926
Paging Business	8,483		4,342		2,161		1,403			
Long Distance Business	556		1,489		2,766		2,273		1,848	223
Data and Internet Business	540		1,820		2,793		3,437		3,663	443
Total service revenue	21,767		28,156		38,333		64,040		76,310	9,220
Sales of telecommunications products	1,925		1,237		2,244		3,596		3,022	365
Total operating revenue	23,692		29,393		40,577		67,636		79,332	9,585
Operating expenses	(18,470)		(24,129)		(33,253)		(59,122)		(71,376)	(8,624)
Operating income	5,222		5,264		7,324		8,514		7,956	961
Loss on sale of discontinued operation (Guoxin Paging)							663			
Income before taxation	4,482		5,463		6,303		6,096		6,467	781
Net income	3,324		4,602		4,598		4,217		4,387	530
-Basic net income per share ⁽³⁾	0.297		0.367		0.366		0.336		0.349	0.042
-Number of shares outstanding for basic net income per share (in thousands) ⁽³⁾	11,208,224		12,552,996		12,552,996		12,553,010		12,561,242	12,561,242
-Diluted net income per share ⁽³⁾	0.297		0.367		0.366		0.336		0.348	0.042
-Number of shares outstanding for diluted net income per share (in thousands) ⁽³⁾	11,208,224		12,552,996		12,552,996		12,568,683		12,607,241	12,607,241
-Basic net income per ADS ⁽⁴⁾	2.966		3.666		3.663		3.359		3.492	0.422
-Number of ADS outstanding for basic net income per share (in thousands) ⁽³⁾	1,120,822		1,255,300		1,255,300		1,255,301		1,256,124	1,256,124
-Diluted net income per ADS ⁽⁴⁾	2.966		3.666		3.663		3.355		3.480	0.420
-Number of ADS outstanding for diluted net income per share (in thousands) ⁽³⁾	1,121,968		1,255,300		1,255,300		1,256,869		1,260,724	1,260,724

	As of or for the year ended December 31									
	2000		2001		2002		2003		2004	
	RMB		RMB		RMB		RMB		RMB	US\$(1)
	(in millions, except number of shares and per share data)									
US GAAP (As restated)^{(2)&(5)}										
Operating revenue			32,501		50,421		71,980		79,388	9,592
Operating income from continuing operations			7,921		9,759		10,710		8,185	989
Net income before discontinued operation, and cumulative effect of change in accounting policy			5,866		5,500		6,078		4,713	569
Loss from discontinued operation, net of tax			710		422		1,342			
Cumulative effect of change in accounting policy (transitional adjustment of goodwill impairment upon the adoption of SFAS 142)					42					
Net income			5,155		5,036		4,736		4,713	569
-Basic net income per share before discontinued operation and cumulative effect of change in accounting policy ⁽³⁾			0.467		0.438		0.484		0.375	0.045
-Basic net income per ADS before discontinued operation and cumulative effect of change in accounting policy ⁽⁴⁾			4.673		4.382		4.842		3.752	0.453
-Basic net income per share after discontinued operation and cumulative effect of change in accounting policy ⁽³⁾			0.411		0.401		0.377		0.375	0.045
-Basic net income per ADS after discontinued operation and cumulative effect of change in accounting policy ⁽⁴⁾			4.107		4.012		3.773		3.752	0.453
Balance sheet Data:										
Hong Kong GAAP (As restated)⁽²⁾										
Bank balances and cash	44,717		18,413		14,433		9,220		4,655	562
Property, plant and equipment, net	52,864		75,748		107,487		118,105		118,904	14,366
Total assets	113,057		128,278		149,628		149,838		145,629	17,595
Net assets	58,336		62,884		67,219		69,615		72,810	8,797
Short-term debt and current portion of other long-term debt	8,501		7,933		15,330		18,173		20,015	2,418
Obligations under finance lease-current portion			8		17		25		938	113
Obligations under finance lease-non current portion			101		101		100		489	59
Other long-term debt	27,151		36,337		37,686		36,213		26,137	3,158
Shareholders' equity	57,452		62,054		66,653		69,615		72,810	8,797

	As of or for the year ended December 31									
	2000		2001		2002		2003		2004	
	RMB		RMB		RMB		RMB		RMB	US\$(1)
	(in millions, except number of shares and per share data)									
US GAAP (As restated)^{(2)&(5)}										
Property, plant and equipment, net					118,787		118,171		118,701	14,342
Total assets					164,636		150,477		146,615	17,715
Obligations under finance lease-current portion					17		25		938	113
Obligations under finance lease-non current portion					101		100		489	59
Other long-term debt					45,520		36,213		26,137	3,158
Shareholders' equity					64,215		65,946		69,442	8,390
Other Financial Data:										
Hong Kong GAAP:										
Net cash provided by operating activities	9,344		11,078		13,054		22,565		23,819	2,878
Net cash used in investing activities	(30,551)		(46,125)		(5,166)		(19,051)		(18,958)	(2,291)
Net cash provided by (used in) financing activities	59,921		8,743		(11,868)		(8,778)		(9,401)	(1,136)
US GAAP (As restated)⁽⁵⁾:										
Net cash provided by operating activities			15,320		18,235		25,993		24,510	2,961
Net cash used in investing activities			(62,971)		(10,261)		(20,295)		(19,668)	(2,376)
Net cash provided by (used in) financing activities			21,015		(12,773)		(11,397)		(9,440)	(1,141)

(1) The translation of RMB into US dollars has been made at the rate of RMB8.2765 to US\$1.00, the noon buying rate in New York City for cable transfer in RMB as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2004. The translations are solely for the convenience of the reader.

(2) The adoption of HK SSAP12 Income Tax (revised) in 2003 represents a change in accounting policy which has been applied retrospectively so that the comparative data presented have been restated to conform to the changed policy.

(3) See Notes 16 and 40 to the financial statements included in this Form 20-F on how basic and diluted net income per share are calculated under HK GAAP and US GAAP, respectively.

(4) Net income per ADS is calculated by multiplying net income per share by 10, which is the number of shares represented by each ADS.

(5) The US GAAP amounts as of December 31, 2004 and 2003 and for each of the years in the three-year period ended December 31, 2004 are presented as if the acquisitions of Unicom New Century, Unicom New World and Unicom International had been in existence since the beginning of the earliest period presented.

Historical Exchange Rates Information

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We publish our financial statements in Renminbi, or RMB, the legal tender currency in the People's Republic of China, or PRC. In this annual report, references to US dollars or US\$ are to United States dollars and references to Hong Kong dollars, HK dollars or HK\$ are to Hong Kong dollars. Solely for the convenience of the reader, this annual report contains translations of certain RMB and Hong Kong dollar amounts into US dollar amounts and vice versa at specified rates. These translations should not be construed as representations that the RMB or Hong Kong dollar amounts actually represent such US dollar amounts or could be converted into US dollar amounts at the rates indicated or at all. Unless otherwise stated, the translations of RMB and Hong Kong dollars into US dollars and vice versa have been made at the rate of RMB8.2765 to US\$1.00 and HK\$7.7723 to US\$1.00, the noon buying rates in New York City for cable transfers payable in RMB or Hong Kong dollars as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2004.

The noon buying rates on June 24, 2005 were RMB8.2765 to US\$1.00 and HK\$7.7719 to US\$1.00, respectively. The average noon buying rates for 2000, 2001, 2002, 2003 and 2004 were RMB8.2784, RMB8.2772, RMB8.2771, RMB8.2772 and RMB8.2768, respectively, to US\$1.00, and HK\$7.7936, HK\$7.7996, HK\$7.7996, HK\$7.7864 and HK\$7.7899, respectively, to US\$1.00, calculated as the average of the noon buying rates on the last day of each month during each applicable year. The following table sets forth the high and low noon buying rates between RMB and the US dollar (in RMB per US dollar) and Hong Kong dollar and the US dollar (in Hong Kong dollar per US dollar) for each month during the previous six months:

Period	High (RMB per US\$1.00)	Low	High (HK\$ per US\$1.00)	Low
December 2004	8.2767	8.2765	7.7821	7.7698
January 2005	8.2765	8.2765	7.7994	7.7775
February 2005	8.2765	8.2765	7.7999	7.7984
March 2005	8.2765	8.2765	7.7998	7.7987
April 2005	8.2765	8.2765	7.7995	7.7946
May 2005	8.2765	8.2765	7.7995	7.7767

B. Capitalization and Indebtedness

Not applicable.

C. **Reasons for the Offer and Use of Proceeds**

Not applicable.