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MAJOR TRANSACTION
APPROVAL TO SIGN COMMERCIAL PRICING AGREEMENT AND SERVICE
AGREEMENT WITH CHINA TOWER CORPORATION LIMITED

Reference is made to the announcements dated 8 July 2016 and 1 February 2018 issued by China Unicom (Hong Kong) Limited (the “Company”) in connection with the commercial pricing of the lease of telecommunications towers and related assets from China Tower Corporation Limited (the “Tower Company”) through the Company’s wholly-owned subsidiary, China United Network Communications Corporation Limited (“CUCL”). The agreements will expire on 31 December 2022.

The Board announces that on 13 December 2022, it approved CUCL and the Tower Company to sign a commercial pricing agreement (“the Commercial Pricing Agreement”) and a service agreement (the “Service Agreement”), and the material terms of the Commercial Pricing Agreement and the Service Agreement have been agreed and finalised, in which CUCL leases assets and receives services provided by the Tower Company, including tower products, indoor distribution system products, transmission products and service products. The term of each of the Commercial Pricing Agreement and the Service Agreement shall be five years, effective from 1 January 2023 to 31 December 2027.

LISTING RULES IMPLICATIONS

In accordance with HKFRS 16 Leases, as a lessee, the Company will recognise the value of the right-of-use assets on its consolidated statement of financial position in connection with the lease of tower products under the Commercial Pricing Agreement and the Service Agreement (“Tower Lease”). Accordingly, entering into the Tower Lease will be deemed as an acquisition of right-of-use assets by the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

As one or more applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the Tower Lease under the Commercial Pricing Agreement and the Service Agreement is more than 25% but less than 100%, the Tower Lease constitutes a major transaction for the Company and is subject to the notification, announcement and shareholders’ approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Commercial Pricing Agreement and the Service Agreement. The Company intends to obtain written approval from Unicom BVI on 29 December 2022, which holds 16,376,043,282 shares, representing approximately 53.52% of the issued share capital of the Company as at the date of this announcement, for the approval of the Commercial Pricing Agreement and the Service Agreement in accordance with Rule 14.44 of the Listing Rules. Upon such written shareholders' approval being obtained, the Commercial Pricing Agreement and the Service Agreement will be taken to have been duly approved in lieu of holding a general meeting of the Company.

A circular containing details of the transaction under the Commercial Pricing Agreement and the Service Agreement will be despatched to the Shareholders on or before 5 January 2023.

1. INTRODUCTION

Reference is made to the announcements dated 8 July 2016 and 1 February 2018 issued by the Company in connection with the commercial pricing of the lease of telecommunications towers and related assets from the Tower Company through CUCL. The agreements will expire on 31 December 2022.

The Board announces that on 13 December 2022, it approved CUCL and the Tower Company to sign the Commercial Pricing Agreement and the Service Agreement, and the material terms of the Commercial Pricing Agreement and the Service Agreement have been agreed and finalised, in which CUCL leases assets and receives services provided by the Tower Company, including tower products, indoor distribution system products, transmission products and service products. The term of each of the Commercial Pricing Agreement and the Service Agreement shall be five years, effective from 1 January 2023 to 31 December 2027.

2. DETAILS OF THE COMMERCIAL PRICING AGREEMENT AND THE SERVICE AGREEMENT

The major terms of the Commercial Pricing Agreement and the Service Agreement are as follows:

(a) Parties

1. CUCL, as lessee; and
2. the Tower Company, as lessor.

(b) Transaction

The assets leased and services received by CUCL from the Tower Company include (1) tower products, acquired towers products (the tower products acquired by the Tower Company in accordance with the previous transaction agreement) (the "Acquired Towers") and new towers products (tower products other than the Acquired Towers)(the "New Towers"), (2) indoor distribution system products, such as building-type and tunnel-type indoor distribution systems, (3) transmission products, such as constructs ducts, pole lines, optical fiber, public manholes in front of sites and exits and routes to sites etc., (4) service product, such as power service, gasoline or diesel power generation service and extra battery assurance service.

(c) Pricing principles

1. Pricing basis

The pricing of assets leased and services provided by the Tower Company is determined after arm's length negotiations, mainly based on the construction cost of related assets, year of depreciation, site fee,

maintenance fee and other expenses, with certain cost margin and co-tenancy discount. The consideration will be financed by the internal resources of the Group.

2. Pricing of major products

(1) New Towers

The pricing formula regarding the New Towers provided by the Tower Company to CUCL is as follow:

$$\begin{aligned} \text{Base price} &= (\Sigma(\text{standard construction cost/years of depreciation}) \times (1 + \text{impairment rate}) + \text{maintenance cost}) \times (1 + \text{cost margin}) \\ \text{Product price} &= \text{base price} \times (1 - \text{co-tenancy discount 1}) + (\text{site fee} + \text{electricity installation cost}) \times (1 - \text{co-tenancy discount 2}) \end{aligned}$$

In order to reflect the difference in the standard construction costs of New Towers in different geographical areas, 31 provinces have been divided into 4 areas, each with a different adjustment rate. The maintenance cost will be determined based on the market bidding price or priced on a lump sum. Impairment rate is fixed at 2% and the cost margin is fixed at 10%. The site fee and electricity installation cost are either priced on a lump sum or on an itemised basis. In order to leverage the co-tenancy synergy, the Tower Company will grant the following co-tenancy discounts:

Co-tenancy discount 1: in respect of base price, a 32.4% discount if two companies share the use of the telecommunications towers and a 42.4% discount if three companies share the use of the telecommunications towers. The original owner of acquired resources and the first exclusive user will benefit from an anchor discount policy (i.e. it will be entitled to an additional 5% discount in addition to the existing discount).

Co-tenancy discount 2: in respect of site fee and electricity installation cost, a 40% discount if two companies share the use of the telecommunications towers and a 50% discount if three companies share the use of the telecommunications towers. The original owner of acquired resources and the first exclusive user will benefit from an anchor discount policy (i.e. it will be entitled to an additional 5% discount in addition to the existing discount).

(2) Acquired Towers

$$\begin{aligned} \text{Base price} &= (\Sigma(\text{standard construction cost of New Towers /years of depreciation of New Towers}) \times \text{discount ratio} \times (1 + \text{impairment rate}) + \text{maintenance cost}) \times (1 + \text{cost margin}) \\ \text{Product price} &= \text{base price} \times (1 - \text{co-tenancy discount 1}) + (\text{site fee}) \times (1 - \text{co-tenancy discount 2}) \\ \text{Discount ratio} &= (\Sigma \text{Assessed value / year of depreciation of Acquired Towers}) / (\Sigma (\Sigma \text{standard construction cost of New Towers by product/ year of depreciation of New Towers} \times \text{proportion of Acquired Towers of the same products}) \times \text{Number of Acquired Towers}) \end{aligned}$$

The product catalogue and pricing formula for the Acquired Towers are basically consistent with that of the New Towers except for that no electricity installation cost will be charged for the Acquired Towers. For Acquired Towers, the geographical adjustment coefficient for New Towers and the wind pressure adjustment coefficient do not apply. The discount ratio for each province is determined by the proportion which the adjusted depreciation cost of the Acquired Towers bears to that of the New Towers in that particular province.

The co-tenancy discount and the anchor discount policies for the Acquired Towers are consistent with those

for the New Towers. For the original sharing party(parties) which already shared the Acquired Towers with the original property owner before 31 October 2015, the base price is charged at 27.6% and the site fee is charged at 30%. The base price of the original property owner is charged at 67.6% if two companies share the use of the telecommunications towers and charged at 57.6% if three companies share the use of the telecommunications towers, and be charged at 70% of the site fee if two companies share the use of the telecommunications towers and charged at 40% of the site fee if three companies share the use of the telecommunications towers. When a third sharing party is added, the price of the existing sharing party's product remains unchanged, whilst original property owner's base price is charged at 57.6%, and the site fee is charged at 45%.

(3) Pricing adjustment mechanism

After taking into account the factors including inflation, the parties shall combine the consumer price index of the previous year determine the corresponding adjustment of the maintenance cost and site fee for the next year. The site fee and product price may be subject to adjustment as negotiated between the parties, if there is the fluctuation in the property market or steel price.

(d) Terms of agreements

The term of each of the Commercial Pricing Agreement and the Service Agreement to be signed by CUCL and the Tower Company shall be five years, effective from 1 January 2023 to 31 December 2027.

Condition Precedents:

The approval of the Commercial Pricing Agreement and the Service Agreement is conditional upon the following conditions being satisfied (or, if applicable, waived):

- (1) The Company obtained written shareholder approval from Unicom BVI for the Commercial Pricing Agreement and the Service Agreement; and
- (2) The lessor, the Tower Company has approved the Commercial Pricing Agreement and the Service Agreement in accordance with its internal organisation documents and related documents, and obtained its shareholders' approvals.

In accordance with HKFRS 16, the unaudited value of the right-of-use assets to be recognised by the Company in respect of the Tower Lease under the Commercial Pricing Agreement and the Service Agreement amounts to approximately RMB35.5 billion (equivalent to approximately HK\$39.7 billion), which is the present value of total minimum lease payment throughout the lease terms of the Tower Lease under the Commercial Pricing Agreement and the Service Agreement. The annual discount rate applied to compute the present value of total minimum lease payment at the inception of the lease terms of the Tower Lease under the Commercial Pricing Agreement and the Service Agreement is approximately 3.7%. The final amount of the right-of-use assets to be recorded by the Group will be subject to audit.

3. REASONS FOR AND BENEFITS OF THE TRANSACTION CONTEMPLATED UNDER THE COMMERCIAL PRICING AGREEMENT AND THE SERVICE AGREEMENT

The Company is of the view that entering into the Commercial Pricing Agreement and the Service Agreement with the Tower Company will enable the Company to promote a quick, precise and effective 5G/4G network roll-out, while at the same time reduce capital expenditure and operating expenses. By co-using the telecommunications tower assets, the Company expects it will benefit from the advantages arising from the effective operation and sharing of resources in the long term, helping the Company build new digital information infrastructure capabilities and technological competitive advantages and further solidify the digital foundation for the Company's high-quality development.

The Directors are of the view that the terms of the Commercial Pricing Agreement and the Service Agreement are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

4. HONG KONG LISTING RULES IMPLICATION

In accordance with HKFRS 16 Leases, as a lessee, the Company will recognise the value of the right-of-use assets on its consolidated statement of financial position in connection with the Tower Lease under the Commercial Pricing Agreement and the Service Agreement. Accordingly, the Tower Lease will be deemed as an acquisition of right-of-use assets by the Company under the Listing Rules.

As one or more applicable percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the Tower Lease under the Commercial Pricing Agreement and the Service Agreement is more than 25% but less than 100%, the Tower Lease under the Commercial Pricing Agreement and the Service Agreement constitutes a major transaction for the Company and is subject to the notification, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Commercial Pricing Agreement and the Service Agreement. The Company intends to obtain written approval from Unicom BVI on 29 December 2022, which holds 16,376,043,282 shares, representing approximately 53.52% of the issued share capital of the Company as at the date of this announcement, for the approval of the Commercial Pricing Agreement and the Service Agreement in accordance with Rule 14.44 of the Listing Rules. Upon such written shareholders' approval being obtained, the Commercial Pricing Agreement and the Service Agreement will be taken to have been duly approved in lieu of holding a general meeting of the Company.

The Circular containing details of the transactions under the Commercial Pricing Agreement and the Service Agreement will be despatched to the Shareholders on or before 5 January 2023.

5. INFORMATION ABOUT THE PARTIES

The Company was incorporated in Hong Kong on 8 February 2000.

The lessee, CUCL is a limited liability company established on 21 April 2000 under the laws of the PRC and is a wholly-owned subsidiary of the Company. Through CUCL and its other subsidiaries, the Company provides a full range of high-quality information and communications services in the PRC.

The lessor, the Tower Company, is a limited liability company established on 15 July 2014 under the laws of the PRC. On 8 August 2018, Tower Company completed the global offering of its H shares on the Main Board of the Hong Kong Stock Exchange. As at the date of this announcement, CUCL holds 20.65% equity interest, China Mobile Communication Company Limited (a subsidiary of China Mobile Limited) holds 27.93% equity interest, China Telecom Corporation Limited holds 20.50% equity interest and China Reform Holdings Corporation Ltd. holds 4.41% equity interest in the Tower Company. The Tower Company is principally engaged in constructing and operating telecommunications towers, provision of telecommunications tower site space; provision of maintenance services and power services; provision of indoor distributed antenna systems, other trans-sector site application and information services and energy business.

To the best knowledge, information and belief of the Directors having made all reasonable enquiry, save as disclosed above, the Tower Company and its ultimate beneficial owner are third parties independent of the Company and connected persons of the Company.

6. DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the meanings set out below:

“Board”	the board of directors of the Company
“Commercial Pricing Agreement”	the commercial pricing agreement approved by the Company on 13 December 2022 to be signed by CUCL and Tower Company
“Company”	中國聯合網絡通信(香港)股份有限公司 (China Unicom (Hong Kong) Limited), a company incorporated under the laws of Hong Kong with limited liability and whose shares are listed on the Hong Kong Stock Exchange
“controlling shareholder”	has the meaning ascribed to it in the Listing Rules
“CUCL”	中國聯合網絡通信有限公司 (China United Network Communications Corporation Limited), a foreign-invested enterprise established under the laws of the PRC and a wholly-owned subsidiary of the Company
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“percentage ratio”	has the meaning ascribed to it in Chapter 14 of the Listing Rules
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Service Agreement”	the service agreement approved by the Company on 13 December 2022 to be signed by CUCL and Tower Company
“Shareholders”	the shareholders of the Company

“Tower Company”	中國鐵塔股份有限公司 (China Tower Corporation Limited), a limited liability company established under the laws of the PRC, the shares of which are listed on the Stock Exchange
“Unicom A Share Company”	中國聯合網絡通信股份有限公司 (China United Network Communications Limited), a company incorporated in the PRC with limited liability, whose shares are listed on the Shanghai Stock Exchange, and an immediate controlling shareholder of Unicom BVI. Unicom Group is its immediate controlling shareholder
“Unicom BVI”	China Unicom (BVI) Limited, a company incorporated under the laws of the British Virgin Islands in which Unicom Group holds 17.90% equity interest and Unicom A Share Company holds 82.10% equity interest as at the date of the announcement, and an immediate controlling shareholder of the Company
“Unicom Group”	中國聯合網絡通信集團有限公司 (China United Network Communications Group Company Limited), a state-owned enterprise established under the laws of the PRC and the ultimate parent company of the Company

This announcement contains translations between Renminbi and Hong Kong dollar amounts at RMB0.8934= HK\$1. The translations should not be taken as a representation that the Renminbi could actually be converted into Hong Kong dollars at that rate or at all.

By Order of the Board
CHINA UNICOM (HONG KONG) LIMITED
Liu Liehong
Chairman & Chief Executive Officer

Hong Kong, 13 December 2022

FORWARD-LOOKING STATEMENTS

Certain statements contained in this announcement may be viewed as “forward-looking statements”. 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. In addition, we do not intend to update these forward-looking statements. Neither the Company nor the directors, employees or agents of the Company assume any liabilities in the event that any of the forward-looking statements does not materialise or turns out to be incorrect.

As at the date of this announcement, the board of directors of the Company comprises:

Executive Directors: Liu Liehong, Chen Zhongyue, Wang Junzhi and Li Yuzhuo

Independent Non-executive Directors: Cheung Wing Lam Linus, Wong Wai Ming,
Chung Shui Ming Timpson and
Law Fan Chiu Fun Fanny