CHINA UNICOM (HONG KONG) Ltd
Form 20-F
June 18, 2010

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

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

OR

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

OR

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

For the transition period from _____ to _____

OR

o **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, 2009, 23,562,092,511 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 þ No o

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 o No þ

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 þ No o

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 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 o No o

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 þ Accelerated Filer o Non-Accelerated Filer o

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

U.S. GAAP o

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

Other o

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 o Item 18 o

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 o No þ

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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 restructuring and integration after our merger with China Netcom Group Corporation (Hong Kong) Limited, 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; 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 the are intended to identify certain of these forward-looking statements. We do not intend to update any of these forward-looking statements.

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, or changes in the regulatory policies of the primary industry regulator, 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;

- 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;

- effects of our restructuring and integration following the completion of our merger with China Netcom Group Corporation (Hong Kong) Limited;

- effects of our proposed adjustments in our business strategies relating to the personal handyphone system, or PHS, business;

effects of our acquisition from our parent companies of certain telecommunications business and assets, including the fixed-line business in 21 provinces in southern China, in January 2009;

changes in the assumptions upon which we have prepared our projected financial information and capital expenditure plans;

changes in the political, economic, legal and social conditions in the PRC, including the PRC Government s policies and initiatives with respect to economic development in light of the current global economic downturn, foreign exchange policies, foreign investment activities and policies, entry by foreign companies into the PRC telecommunications market and structural changes in the PRC telecommunications industry; and

the potential continued slowdown of economic activities inside and outside the PRC.

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 Ch Unicom (Hong Kong) Limited (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 predecessors 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 and provinces where we operate fixed-line business 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 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 , SEHK 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 the United States of America, and references to HK dollars or HK$ are to the currency of the Hong Kong Special Administrative Region of the PRC.

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Special Note on Our Financial Information and Certain Statistical Information Presented in This Annual Report

Our consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009 included in this annual report on Form 20-F have been prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or the IASB. These financial statements also comply with Hong Kong Financial Reporting Standards, or HKFRS, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, or HKICPA. As applied to our company, HKFRS is consistent with IFRS in all material respects.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission, or the SEC, which became effective on March 4, 2008, we are not required to provide reconciliation to generally accepted accounting principles in the United States, or U.S. GAAP.

The consolidated financial statements included in our annual reports on Form 20-F previously filed with the SEC in respect of the years ended December 31, 2005 and 2006 were prepared in accordance with HKFRS.

The statistical information set forth in this annual report on Form 20-F relating to the PRC 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 the PRC.

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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 each of the years in the three-year period ended December 31, 2009. Except for amounts presented in U.S. dollars, the selected historical consolidated income statement data for the years ended December 31, 2007, 2008 and 2009 and the selected historical consolidated balance sheet data as of December 31, 2008 and 2009 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 balance sheet data as of December 31, 2007 set forth below are derived from our internal records and management accounts that are not included in this annual report on Form 20-F. As disclosed above under Special Note on Our Financial Information and Certain Statistical Information Presented in This Annual Report , our consolidated statements of income for the years ended December 31, 2007, 2008 and 2009 and consolidated balance sheets as of December 31, 2008 and 2009 have been prepared and presented in accordance with IFRS/HKFRS.

We completed (i) 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 telecommunication assets from Unicom Group and Netcom Group (which was later merged with Unicom Group in January 2009) in January 2009, and (ii) a merger with China Netcom in October 2008. See A. History and Development of the Company 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 we and the Target Business were under common control of Unicom Group, both prior to and after the acquisitions, and 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. In addition, we completed an acquisition of assets and business of the Guizhou Province branch of Unicom Group, or Unicom Guizhou, from Unicom Group in December 2007 and prior to its merger with us, China Netcom completed an acquisition of the entire equity interest of Beijing Planning and Design Institute, or Design Institute, a wholly-owned subsidiary of Netcom Group, in December 2007. Because we and Unicom Guizhou were under the common control of Unicom Group both prior to and after our acquisition of Unicom Guizhou and China Netcom and Design Institute were under the common control of Netcom Group (which merged with, and was absorbed by, Unicom Group in January 2009) both prior to and after China Netcom s acquisition of Design Institute, both acquisitions have been accounted for using merger accounting in accordance with AG5 issued by the HKICPA. 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. The acquired assets and liabilities mentioned above in this paragraph are stated at historical cost, 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. Accordingly, the 2007 and 2008 comparative figures in the consolidated financial information included in this Form 20-F have been restated to reflect the financial position, results of operations and cash flows of these acquired businesses.

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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 statements of income and statements of cash flows for the years ended December 31, 2007 and 2008.

Prior to our merger with China Netcom, China Netcom completed the disposal of the fixed-line telecommunications and related services in its Guangdong and Shanghai branches in February 2007. See A. History and Development of the Company History and Corporate Development of China Netcom under Item 4. After considering that we reacquired the fixed-line business in Guangdong and Shanghai branches in January 2009, we did not present the fixed-line business in Guangdong and Shanghai branches as discontinued operations and derecognized the gain on disposal previously recorded in our 2007 consolidated financial statements.

	As of or for the year ended December 31			
	2007	**2008**	**2009**	**2009**
	RMB	**RMB**	**RMB**	**US$[1]**
	(in millions, except for per share data)			
Consolidated Income Statement Data:				
CONTINUING OPERATIONS				
Revenue[2]				
Mobile business				
Telecommunication service revenue	62,236	64,240	69,769	10,221
Information communication technology services and other revenue	187	359	252	37
Sales of mobile telecommunications products	14	532	1,970	289
Total mobile telecommunications revenue	62,437	65,131	71,991	10,547
Fixed-line business				
Telecommunication service revenue [2]	91,093	88,254	79,549	11,654
Information communication technology services and other revenue	4,782	4,339	1,611	236
Sales of fixed-line telecommunications products	980	1,362	193	28
Total fixed-line telecommunications revenue	96,855	93,955	81,353	11,918
Unallocated amounts				
Telecommunication service revenue [2]	420	337	275	40
Information communication technology services and other revenue	228	364	326	48
Sales of other telecommunications products		5		
	648	706	601	88
Total revenue	**159,940**	**159,792**	**153,945**	**22,553**

Total costs, expenses and others	**(131,856)**	**(150,139)**	**(141,668)**	**(20,754)**
Income from continuing operations before income tax	**28,084**	**9,653**	**12,277**	**1,799**
Income tax expenses	(7,175)	(1,828)	(2,721)	(399)
Income from continuing operations	**20,909**	**7,825**	**9,556**	**1,400**
DISCONTINUED OPERATIONS[3]				
Income from discontinued operations	656	1,438		
Gain on disposal of discontinued operations		26,135		
Sub-total for discontinued operation	656	27,573		
Net income	**21,565**	**35,398**	**9,556**	**1,400**
Earnings per share for income attributable to the equity holders of the Company during the year				
Basic earnings per share[4]	0.93	1.49	0.40	0.06
Diluted earnings per share[4]	0.92	1.48	0.40	0.06
Basic earnings per ADS[5]	9.35	14.90	4.02	0.59
Diluted earnings per ADS[5]	9.25	14.79	4.00	0.59
Earnings per share for income from continuing operations attributable to the equity holders of the Company during the year				
Basic earnings per share[4]	0.90	0.33	0.40	0.06

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	As of or for the year ended December 31			
	2007	2008	2009	2009
	RMB	RMB	RMB	US$[1]
	(in millions, except for per share data)			
Diluted earnings per share[4]	0.89	0.33	0.40	0.06
Basic earnings per ADS[5]	9.06	3.29	4.02	0.59
Diluted earnings per ADS[5]	8.97	3.27	4.00	0.59
Earnings per share for income from discontinued operations attributable to the equity holders of the Company during the year				
Basic earnings per share[4]	0.03	1.16		
Diluted earnings per share[4]	0.03	1.15		
Basic earnings per ADS[5]	0.29	11.61		
Diluted earnings per ADS[5]	0.28	11.52		
Number of shares outstanding for basic earnings per share[4]	23,075	23,751	23,767	23,767
Number of shares outstanding for diluted earnings per share[4]	23,321	23,941	23,895	23,895
Number of ADS outstanding for basic earnings per ADS[5]	2,308	2,375	2,377	2,377
Number of ADS outstanding for diluted earnings per ADS[5]	2,332	2,394	2,389	2,389
Consolidated Balance Sheet Data:				
Assets				
Cash and cash equivalent and short-term bank deposits	13,555	10,574	8,816	1,292
Property, plant and equipment	277,787	285,469	351,157	51,445
Available-for-sale financial assets	287	95	7,977	1,168
Proceeds receivable for the disposal of the CDMA business		13,140	5,121	750
Total assets	**338,222**	**348,752**	**417,045**	**61,097**
Liabilities				
Payables in relation to the disposal of the CDMA business		4,232	7	1
Short-term bank loans	11,850	10,780	63,909	9,363
Commercial paper	20,000	10,000		
Current portion of long-term bank loans	7,411	1,216	62	9
Current portion of other obligations	3,484	3,012	2,534	371
Long-term bank loans	16,086	997	759	111
Corporate bonds	2,000	7,000	7,000	1,026
Total liabilities	**160,033**	**141,025**	**210,578**	**30,850**

Shareholders equity	**178,189**	**207,727**	**206,467**	**30,247**
Share capital	1,437	2,329	2,310	339
Other Financial Data:				
CONTINUING OPERATIONS				
Net cash inflow from operating activities of continuing operations	68,854	57,241	57,733	8,459
Net cash outflow from investing activities of continuing operations	(47,770)	(54,742)	(85,308)	(12,498)
Net cash (outflow)/inflow from financing activities of continuing operations	(29,805)	(35,070)	30,197	4,423
Net cash (outflow)/inflow from continuing operations	**(8,721)**	**(32,571)**	**2,622**	**384**
DISCONTINUED OPERATIONS(3)				
Net cash inflow from operating activities of discontinued operations	837	656		
Net cash (outflow)/inflow from investing activities of discontinued operations	(25)	29,489	(5,039)	(738)
Net cash outflow from financing activities of discontinued operations				
Net cash inflow/(outflow) from discontinued operations	**812**	**30,145**	**(5,039)**	**(738)**
Net decrease in cash and cash equivalents	**(7,909)**	**(2,426)**	**(2,417)**	**(354)**
Dividend declared per share	**0.20**	**0.20**	**0.16**	**0.02**

(1) The translation of RMB into US dollars has been made at the rate of RMB6.8259 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, 2009. The

translations

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are solely for the convenience of the reader.

(2) Including 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.

(3) Results of our CDMA business have been disclosed as discontinued operations for the years ended December 31, 2007 and 2008.

(4) See Note 37 to the financial statements included in this 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 and vice versa at RMB6.8259 = US$1.00 and HK$7.7536 = US$1.00, the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on December 31, 2009. 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 noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York were RMB6.8320 = US$1.00 and HK$7.7935 = US$1.00, respectively, on June 11, 2010. The following table sets forth the high and low noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

Noon Buying Rate

	RMB per US$1.00		HK$ per US$1.00	
	High	**Low**	**High**	**Low**
December 2009	6.8244	6.8299	7.7495	7.7572
January 2010	6.8258	6.8295	7.7539	7.7752
February 2010	6.8258	6.8330	7.7619	7.7716
March 2010	6.8254	6.8270	7.7574	7.7648
April 2010	6.8229	6.8275	7.7565	7.7675
May 2010	6.8310	6.8245	7.8030	7.7626
June 2010 (up to June 11, 2010)	6.8322	6.8268	7.8040	7.7903

The following table sets forth the average noon buying rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars in 2005, 2006, 2007, 2008 and 2009, calculated by averaging the noon buying rates on the last day of each month during the relevant year.

Average Noon Buying Rate

	RMB per US$1.00	HK$ per US$1.00
2005	8.1826	7.7755
2006	7.9579	7.7685
2007	7.5806	7.8008
2008	6.9193	7.7814
2009	6.8295	7.7513

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

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D. Risk Factors

Risks Relating to Our Business

We face intense competition in all our businesses from other telecommunications service providers, including China Mobile and China Telecom, 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 and 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 and may also include other telecommunications service providers in the future.

For mobile business, China Mobile is the largest mobile operator in China, while China Telecom has become a new competitor after acquiring our CDMA business in the 2008 industry restructuring. In the emerging 3G mobile market, although we have certain competitive advantage due to the WCDMA technology that we were assigned with by the PRC government to operate our 3G business, we face intense competition from the other two operators. For fixed-line business, we are a leading fixed-line operator in northern China, but remain relatively small in southern China, where China Telecom has a dominant market position. We also face increasing competition from competitors outside the telecommunications industry, such as cable television companies for fixed-line broadband business. Furthermore, the PRC Government is in the process of initiating new policies, in particular, the policies regarding the convergence of television broadcast, telecommunications and Internet access networks and 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. Although these new initiatives may present opportunities for us to attract new users, they also pose additional uncertainties to the competition in mobile business in China, and we cannot assure you that our business will not be adversely affected from such initiatives.

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

We may further lose subscribers, in particular, fixed-line services subscribers, which may materially adversely affect our financial condition, results of operations and growth prospects.

We continue to lose fixed-line services subscribers 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. While we have been taking various measures to retain our fixed-line subscribers, we cannot assure you that we will be successful in mitigating the adverse impact of mobile service substitution for fixed-line telephone services. Historically, we also experienced loss of mobile subscribers, primarily due to intensified competition from other service providers. We may continue to lose fixed-line and mobile subscribers, which may in turn adversely affect our relevant market share and increase our costs of additional customer acquisitions and bad debts, which would materially adversely affect our financial condition, results of operations and growth prospects.

Competition from foreign-invested operators and other new entrants 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 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 these and other new entrants into the Chinese 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.

We may not be able to fully realize the anticipated synergies of our merger with China Netcom as well as our acquisition of the fixed-line business in 21 provinces in southern China due to a number of factors, some of which are beyond our control, and may experience various difficulties in the ongoing integration process, and our future financial condition, results of operations and growth prospects may be materially adversely affected.

We believe that our merger with China Netcom represents an important transaction for us, consistent with the industry trend of convergence between fixed-line and mobile businesses within China. It allows us to benefit from increased economies of scale, reinforce our market position, improve our overall competitiveness and lay the foundation for sustainable long-term growth. Nevertheless, the scale, scope and nature of the integration and customer retention efforts required in connection with the merger present significant challenges. Although we have achieved integration in a number of areas, such as networks and personnel, we cannot assure you that we will be able to fully realize the anticipated synergies as a result of numerous factors, some of which are beyond our control. These factors include, among other things:

- unforeseen contingent risks or latent liabilities relating to the merger that may not become apparent until the future;
- increase in competition in the PRC telecommunications industry resulting from the recent restructuring of the PRC telecommunications industry, which, among other things, may require us to increase our marketing efforts;
- the diversion of financial or other resources from our existing businesses; and
- potential loss of, or harm to, relationships with customers.

Any of the above could adversely impact the full realization of our anticipated synergies from the merger with China Netcom and could materially adversely affect our future business performance, results of operations and financial condition.

In addition, as the integration is ongoing, due to various potential difficulties in managing a much larger business, our management expects that further efforts will be required in the continuing integration process, which may result in a significant diversion of our management s attention from the operation of our businesses and may significantly restrain our management s resources, thereby adversely affecting our financial condition, results of operations and growth prospects.

Following the completion of our acquisition of the fixed-line business in 21 provinces in southern China, we have been integrating our existing business with the fixed-line operations in those 21 provinces in southern China. We cannot assure you that this acquisition will meet our expectation to optimize our business and resources and enhance our overall competitive position.

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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. As a result, we expect that we will need to constantly upgrade our telecommunications technologies and services to respond to such changes in order to maintain our competitiveness, which typically involves substantial time, costs and risk. 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.

In addition, the growth of our business, particularly the mobile 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 failure to do so could result in loss of our customers and thus materially adversely affect our competitive position and hinder our growth.

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;
- 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 business is subject to market demand, consumer acceptance, technological challenges, other uncertainties, expected benefits from investments in our 3G networks and technology may not be realized and our business may be adversely affected due to the competitive nature between 3G services and 2G mobile business and fixed-line broadband services in the industry.

We commercially launched our 3G service in October 2009. As is common with undertakings of this scale and complexity, we may experience various difficulties in the development of our 3G business, including software, network, handset and other technical issues. While we generally believe we are capable of solving these issues, we cannot assure you that we will be able to do so in a timely fashion or that we will not encounter other difficulties. Moreover, we cannot assure you that:

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- we will be able to gain access to sufficient sites for 3G network expansion;
- there will be sufficient demand for 3G services for us to deliver these services profitably;
- our 3G services will be more popular among potential subscribers than those of our competitors;
- we will not encounter unexpected technological difficulties in implementing the WCDMA technology; or
- our 3G services will generate an acceptable or commercially viable rate of return.

Any failure or delay in completing and expanding 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 handsets subsidies, to meet the market demand), or any problem encountered in our operations of 3G business could hinder the recovery of our significant capital investment in the 3G business, which could in turn have a material adverse effect on our financial condition, results of operations and growth prospects. In addition, we expect that 3G services will compete with 2G services and fixed-line broadband as an industry trend in the future. Therefore, while we continue to promote our 3G business, we cannot assure you that our 2G business and fixed-line broadband will not be adversely affected by the industry-wide competition.

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 telecommunication 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 January and February of 2008, certain areas of China experienced what was reportedly the most severe winter weather in the country in half a century. Our base stations in the affected areas suffered from power failures and our network equipment sustained other damage due to this severe winter weather. In addition, in May 2008, an earthquake registering 8.0 on the Richter scale struck Sichuan Province

and its neighboring areas in China. 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.

If we fail to achieve a smooth discontinuation of PHS services or retain our PHS subscribers to use our other telecommunications services, our financial condition and results of operations may be adversely affected.

Upon the completion of our merger with China Netcom, we took over China Netcom s PHS services, which we did not operate before the merger. PHS is a telecommunications technology that allows an operator to offer wireless local access services with mobility within an area with the same area code. PHS business has experienced dramatic declines in recent years since its tariff advantage has been diminishing as a result of intense competition in the mobile service market in China. Further, in January 2009, the MIIT announced its decision to reallocate the radio spectrum on which we currently provide our PHS services to the TD-SCDMA technology which China Mobile uses to provide its 3G services. The MIIT requested that current wireless access systems operating on 1900-1920 MHz spectrum be cleared and removed by the end of 2011. As we expected that we would experience a significant decline in revenue and profitability for our PHS business in 2009 and onwards, and that our PHS business would deteriorate significantly and discontinuing the PHS services may result in a substantial loss of our investment in this area, we recognized an impairment loss on the PHS-related assets of approximately RMB11.8 billion for the year ended December 31, 2008, leaving the carrying value of PHS-related assets of approximately RMB1.52 billion as of December 31, 2008.

We have been utilizing our full-service operations platform to provide substitute or supplemental telecommunications services to our existing PHS users together with favorable measures. However, we cannot assure you that we will be able to achieve a smooth discontinuation of PHS services within the specified time frame or effectively retain our PHS subscribers to use our other telecommunications services. As a result, our financial condition and results of operations may be adversely affected.

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 plan to spend approximately RMB73.5 billion for capital expenditure in 2010. To the extent these capital expenditures exceed our cash resources, we will be required to seek additional debt or equity financing. Our wholly-owned subsidiary, CUCL, recently completed the issue of the first tranche of commercial paper for the year 2010 in an amount of RMB15 billion on April 1, 2010, with a maturity period of 365 days and at an interest rate of 2.64% per annum. CUCL also completed the issue of the first tranche of promissory note for the year 2010 in an amount of RMB3 billion on April 2, 2010, with a maturity period of three years and at an interest rate of 3.73% per annum. We cannot assure you that we will be able to obtain future financing on a timely basis and/or on acceptable terms. 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 further declines in ARPU for our telecommunications services.

We have been experiencing declining ARPU for our 2G mobile services and fixed-lined business in recent years, mainly due to (i) the pricing competition with other telecommunications operators in China and downward adjustments on some of the telecommunications tariffs by the PRC Government (which may continue in the future); and (ii) the fact that a significant portion of our incremental market consists of users from rural areas in China, many of whom are more cost-sensitive than users from urban areas. Our current 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, to encourage more usage of our services and developing our high-end customers, we cannot assure you that these efforts will be able to achieve the anticipated results.

If the economy of China slows down under the recent global financial crisis or as a result of subdued global recovery, our financial condition, results of operations and growth prospects may be materially adversely affected.

In late 2008, a global financial crisis swept the global economy and affected a number of countries, including China, to different extents. In response, the PRC Government adopted a series of measures to maintain the growth of the economy. More recently, significantly increased volatility and risk-aversion in the global financial markets in the second quarter of 2010 reportedly reflect concerns that the global economic recovery may be subdued or falter, including as a result of high government debt levels in certain European economies, the withdrawal of government stimulus programs in major economies and measures in China aimed at restraining the rate of growth of domestic property prices. If these concerns are correct or if other events adversely affect the global economy, the global economy, including the Chinese economy, may experience an extended period of slower growth. If China s economic growth slows down, our subscribers usage of our services may decrease, our loss of subscribers may accelerate and we may experience increased difficulties in acquiring new subscribers. In addition, one of our significant investments is in a company located in Europe and is also denominated in Euro and, therefore, slower economic growth in Europe and a depreciation of Euro against Renminbi (our functional currency) may adversely affect the value of that investment. Furthermore, although the recent global financial crisis has affected the financial industry in China to a lesser extent than that in certain other countries, if the Chinese financial industry becomes further adversely affected, our ability to obtain financing may be constrained. All of these factors may materially adversely affect our financial condition, results of operations and growth prospects.

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 71.02% of our issued share capital as of May 31, 2010 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, following our acquisition of the fixed-line business in 21 provinces in southern China in January 2009, we began leasing fixed-line networks from Unicom Group for our fixed-line business operations in those provinces. Unicom Group also 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 and A. History and Development

of the Company under Item 4. 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 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.

As of December 31, 2009, 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, 2009 was effective. PricewaterhouseCoopers, an independent registered public accounting firm, expressed unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2009. 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.

The PRC National Audit Office and other governmental or third parties may audit or investigate our ultimate controlling shareholder (including certain of its management personnel) and us from time to

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time. The outcome of these governmental or third-party investigations may materially adversely affect our corporate image, the reputation and credibility of our management, our business and financial condition and the prices of our shares and ADSs.

The PRC National Audit Office, or the NAO, from time to time performs audits on state-owned companies, such as Unicom Group, our ultimate controlling shareholder (including certain of its management personnel). Beginning in September, 2009, the NAO performed a routine audit on the legal representatives of the former Unicom Group and the former Netcom Group with respect to their economic responsibilities during their terms of office. As of the date of this annual report, the NAO has not completed its audit and has not informed Unicom Group or us of any audit conclusion. If, as a result of an NAO audit, material irregularities are found within Unicom Group or if Unicom Group becomes the target of any negative publicity, there could be a material adverse effect on our corporate image, the reputation and credibility of our management, our business and financial condition and the market prices of our shares and ADSs. In addition, we may be the subject of other governmental or third-party investigations or similar events that, depending on their outcome, could have a material adverse effect on our business and financial condition and the market prices of our shares and ADSs.

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. The proposed nature and scope of the telecommunications law have not yet been 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, managed data services, leased line services and interconnection agreements. We have experienced significant downward adjustments on tariffs of telecommunications services in recent years and our revenues have been adversely affected by reductions in tariffs promulgated by the PRC Government, such as the reduction of charges for roaming services mandated by the MIIT and the National Development and Reform Commission of the PRC, or the NDRC, in February 2008.

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 recently drawn attention from customers and the PRC Government. Revenues from some of our customers have decreased as a result of discounts on monthly fees that we offered through bundled service packages. Our revenues 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 services in 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

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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 revenues are 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, 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, increased levels of inflation or increased pressure for higher social average wages in China may prompt us, or the PRC Government to request us, to increase wages for our employees, which may materially adversely affect 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 and interest on foreign loans. The Renminbi currently cannot be freely converted without regulatory approval for transactions under the capital account, which includes outbound foreign investment and principal 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.

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

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Substantially all of our revenues 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 substantial 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.

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New provisions of the PRC Employment Contract Law and its implementation rules may substantially increase our labor-related costs in the future.

A new labor contract law in China, which we refer to as the Employment Contract Law, became effective on January 1, 2008, and its implementation rules became effective on September 18, 2008. The Employment Contract Law and its implementation rules contain a number of provisions that are more favorable to employees than the prior labor laws and regulations in China. For example, an employee may terminate the employment contract without notice if his or her employer fails to pay regulatory social insurance contributions for the employee, or the employer has a workplace policy that violates PRC law and causes harm to the employee. In such case, the employee is entitled to compensation by the employer in an amount equal to his or her average monthly salary for the prior twelve months times the number of years the employee has served the employer. An employer is also obligated to compensate an employee if the employer decides not to renew an existing employment contract, unless the employee refuses the employer s offer to renew the expiring employment contract with the same or better terms. In addition, an employer is obligated to provide an open-ended employment contract after an employee has completed two consecutive terms of fixed-term employment, under which the employer will be liable to pay damages to an employee if the employer terminates the employment without cause, until the employee reaches an age at which he or she is eligible for pension payment. As a result of the implementation of the new Employment Contract Law and its implementation rules, we may have greater difficulty terminating under-performing employees and may incur higher levels of labor costs in order to comply with the provisions of the new law and its rules, which may adversely affect our business, financial condition and operating results.

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). We are also 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.

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.

Item 4. Information on the Company

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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 Ministry of Finance of the PRC 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 Ministry of Finance 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 along with us; (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.

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 revenues 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 Mobile Telecommunications Company Limited, or 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. For further details, see Operating Results Year Ended December 31, 2008 Compared to Year Ended December 31, 2007 Income from Discontinued Operations under Item 5.

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, including mobile voice and value-added, fixed-line voice and value-added, fixed-line broadband, data communications and other telecommunications services, to our customers through our two business segments comprised of mobile services and fixed-line 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 the PRC.

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, or China Netcom Holdings, 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

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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 the PRC. 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 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. 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.

Unicom Vsens Telecommunications Company Limited

On August 19, 2008, CUCL established a wholly-owned subsidiary, Unicom Huakai Telecommunications Company Limited, 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.

China Unicom Mobile Network Company Limited

On December 31, 2008, CUCL established a wholly-owned subsidiary, China Unicom Mobile Network Company Limited, as a limited liability company under the laws of the PRC. Unicom Mobile Network is principally engaged in construction and maintenance of our networks. The paid-in capital of Unicom Mobile Network is RMB500 million.

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 Unicom New Guoxin Telecommunications Corporation Limited, 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 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 lease became effective in January 2009 upon the completion of our acquisitions of the fixed-line business in southern China. This lease is for an initial term of two years effective from January 2009 and is 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, taking into account, among other things, the prevailing market conditions in southern China. The annual lease fee payable by CUCL for the years ending December 31, 2009 and 2010 is RMB2.0 billion and RMB2.2 billion, respectively. In connection with the lease, Unicom New Horizon also granted CUCL an option, but not an obligation, to purchase the telecommunications networks leased in southern China. The purchase option may be exercised, at the discretion of CUCL, at any time during the term of the lease. No premium has been paid or will be payable by CUCL for such purchase option. In the event that CUCL elects to exercise this purchase option, the parties will discuss and negotiate the purchase price with reference to the appraised value of the telecommunications networks in southern China, which is to be determined in accordance with applicable laws of Hong Kong and the PRC, after taking into account the prevailing market conditions and other factors. Under the network lease agreement, CUCL is responsible for the ongoing cost and expenses incurred in respect of the maintenance and management which may arise from the use of the leased telecommunications networks in southern China. See B. Related Party Transactions 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 7.

Mutual Investment with Telefónica

On September 6, 2009, we entered into a share subscription agreement with 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 EUR17.24 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 by cooperation based on our respective networks, business model and experience.

Share Repurchase from SK Telecom

On September 25, 2009, we received a conditional irrevocable offer from SK Telecom Co., Ltd. for sale, and we repurchased from SK Telecom by way of an off-market share repurchase of 899,745,075 shares, which comprised all of our shares previously owned by SK Telecom. The consideration for this share repurchase was approximately HK$9.99 billion, HK$11.105 for each share repurchased, and was paid in cash. The share repurchase was completed on November 5, 2009 and the 899,745,075 repurchased shares were subsequently cancelled by our company.

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

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two-step process described in A. Development and History of the Company Two-Step Voting Arrangements below. These include arrangements for interconnection services between the telecommunications networks owned by us and Unicom Group and for the provision or sharing of telecommunications and ancillary services and facilities between us and Unicom Group. Unicom Group also retains its interests in its other subsidiaries that provide ancillary services to us, including the procurement of telecommunications equipment and the supply of SIM cards and calling cards. Our existing agreements with Unicom Group were entered into in August 2008. In addition, in connection with our merger with China Netcom, CUCL and Netcom Group entered into various framework agreements in August 2008 to record the principles governing, and the principal terms of, various arrangements including interconnection services and the provision and sharing of telecommunications and ancillary services and facilities between us and Netcom Group (whose rights and obligations under such framework agreements have been assumed by Unicom Group, which merged with, and absorbed, Netcom Group in January 2009). Furthermore, as a result of the merger between Unicom Group and Netcom Group, Unicom Group assumed all rights and obligations under certain existing agreements entered into between CNC China (which merged with, and was absorbed by, CUCL in January 2009) and Netcom Group relating to various arrangements, including interconnection services, settlements and the provisions and sharing of telecommunications and ancillary services and facilities between CNC China and Netcom Group. 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 and significant subsidiaries as of May 31, 2010.

Two-Step Voting Arrangements

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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.

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 2010. We currently do not have any significant divestiture in progress.

B. Business Overview

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General

As a result of our merger with China Netcom in October 2008, we have become 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 through our two business segments comprised of mobile services and fixed-line services. Following our acquisition of fixed-line business in 21 provinces in southern China from our parent companies in January 2009, we have extended the coverage of all of our services nationwide. 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.

Mobile Business

Our mobile business consists of GSM and 3G mobile business. Our mobile business revenue, subscribers and usage maintained steady growth in 2009. As of December 31, 2009, we had a total of 147.59 million mobile subscribers, representing a 10.7% increase from 133.37 million as of December 31, 2008. Revenue from our mobile business was RMB71.99 billion in 2009, of which, telecommunication service revenue of our mobile business increased by 8.6% from RMB64.24 billion in 2008 to RMB69.77 billion in 2009, accounted for 42.6% and 46.8% of our total telecommunication service revenues from continuing operations in 2008 and 2009, respectively (excluding fixed-line upfront connection fees of RMB0.49 billion and RMB0.89 billion in 2009 and 2008, respectively, and interconnection revenue of RMB0.99 billion between our certain fixed-line business and the discontinued operations of CDMA business in 2008).

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,		
	2007	**2008**	**2009**[1]
Number of subscribers (in thousands)	120,564	133,365	147,587
Estimated market share in our service areas[2]	22.0%	20.8%	19.7%
Average minutes of usage per subscriber per month (MOU)[3]	249.7	246.4	253.1
Average revenue per subscriber per month (ARPU) (in RMB)[4]	45.7	42.3	41.6

(1) Including our 3G business which we launched on a trial basis in May 2009 and began operating on a commercial basis in October 2009.

(2) 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*: MIIT.

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

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

GSM Mobile Business

Our GSM mobile business primarily consists of GSM voice business and value-added business.

GSM Voice Business

Our mobile voice business 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. Our mobile voice business includes local calls, domestic long distance calls, international long distance calls, intra-provincial roaming, inter-provincial roaming and international roaming.

Subscriber Increase. Our total number of GSM mobile subscribers increased by 8.6% from 133.37 million as of December 31, 2008 to 144.85 million as of December 31, 2009. 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, driven by domestic economic growth and reduction in the cost of mobile handsets and services, and (ii) our sales and marketing efforts in retaining existing subscribers and expanding our subscriber base, including through service bundling. The increase of our GSM mobile subscribers, together with the decreasing effective tariffs, also resulted in an increase of the total voice usage of our GSM mobile services by 12.3% from 376.67 billion minutes in 2008 to 423.05 billion minutes in 2009.

MOU and ARPU. With respect to our GSM mobile business, MOU increased by 2.3% from 246.4 minutes in 2008 to 252.0 minutes in 2009, and ARPU decreased by 2.6% from RMB42.3 in 2008 to RMB41.2 in 2009. The increase in our MOU is mainly attributed to the decreasing effective tariffs. The decrease in ARPU was primarily attributable to (i) our generally decreased effective tariffs, which were caused by the further intensified competition among the telecommunications operators in China and downward adjustments on tariffs by the PRC Government and (ii) 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 Value-Added Services

We offer a broad range of GSM value-added services nationwide, including SMS, Cool Ringtone (a personalized ring-back tone service), general packet radio service, or GPRS, and other wireless information services. Our value-added services continued to grow and the contribution to our revenue from mobile services continued to increase in 2009. In particular, a total of 76.45 billion SMSs were transmitted by our GSM mobile subscribers in 2009, representing an increase of 0.2% compared to 2008. As of December 31, 2009, we had a total number of 49.22 million subscribers to our Cool Ringtone service, representing a net increase of 5.09 million, and the penetration rate increased from 33.1% at the end of 2008 to 34.0% at the end of 2009. In addition, as of December 31, 2009, we had a total number of 44.789 million GPRS subscribers, representing a net increase of 13.565 million from the end of 2008, up by 43.4% from 2008, and the penetration rate increased from 23.4% at the end of 2008 to 30.9% at the end of 2009.

3G Mobile Business

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. As of December 31, 2009, the number of cities covered by our 3G services increased to 335. For our 3G business, we implemented unified strategies with respect to brand, service, tariff, packaging, handset policies and customer care throughout China.

In addition, beginning in October 2009, we partnered with Apple Inc. to sell iPhone handsets in China. We believe that our collaboration with Apple in selling iPhones is helpful in enhancing our 3G brand recognition, which in turn benefit our 3G business in China. Furthermore, to target 3G subscribers with demand of mobile Internet services, we actively promoted various 3G services, including mobile Internet, mobile music, mobile television, video handsets, mobile newspapers and 3G data card.

As of December 31, 2009, the total number of our 3G subscribers reached 2.74 million and ARPU of 3G subscribers reached RMB141.7 in 2009.

Fixed-Line Business

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, (ii) traditional fixed-line services, which include fixed-line voice services and value-added services, and (iii) data communications and other services.

In 2009, with decreased effective tariffs, downward adjustments of mobile roaming tariffs and the further

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implementation of the mobile Calling-Party-Pays policy and continuation of the mobile services substitution of fixed-line voice services, our traditional fixed-line business has been negatively impacted. By accelerating our implementation of an upgrade of our fixed-line broadband network with increased access speed, developing content and application services, we achieved continued growth in 2009 in fixed-line broadband and data communications business, which partially mitigated the decline in the fixed-line voice business. Excluding fixed-line upfront connection fees of RMB0.49 billion and RMB0.89 billion in 2009 and 2008, respectively, and interconnection revenue of RMB0.99 billion between our certain fixed-line business and the discontinued operations of CDMA business in 2008, our revenue from fixed-line business was RMB80.86 billion in 2009, of which telecommunication service revenue from our fixed-line business decreased by 8.5% from RMB86.38 billion in 2008 to RMB79.06 billion in 2009, accounted for 57.2% and 53.0% of our total telecommunication service revenue from continuing operations in 2008 and 2009, respectively.

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 business 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 2009, we further upgraded our broadband network and improved access speed. As of December 31, 2009, our fixed-line broadband subscribers increased by 28.2% to 38.55 million, of which, subscribers with 2M-and-above bandwidth accounted for 83.2% of all fixed-line broadband subscribers, representing an increase of 21.3 percentage points from the end of 2008. We also continued implementing our marketing strategy to offer integrated broadband content, applications, access and services. The total number of our subscribers of broadband content and applications reached 8.16 million, accounting for 21.2% of all fixed-line broadband subscribers. Our broadband ARPU declined by 10.1% to RMB57.2 in 2009 mainly because (i) a significant portion of our new broadband subscribers consist of users from rural areas in China who tend to have limited usage of broadband services, and (ii) the general decreasing effective tariff resulted from intensified competition in fixed-line broadband business.

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

	As of December 31,		
	2007	**2008**	**2009**
Number of fixed-line broadband subscribers (in thousands)	23,476	30,081	38,550

Data Communications Services

We are a leading provider of data communications services in our fixed-line northern service region. We offer managed 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. We have established business cooperation relationships with more than 160 overseas operators to provide various international data communications products and services, such as international voice and data services. In 2009, we continued to use our post-merger domestic and international resources to meet the demands of domestic and international customers for data communications. We have also improved our capabilities to offer cross-border data communications and integrated information services.

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Fixed-Line Voice Business

Our fixed-line voice services consist of local voice, domestic long distance, international long distance, value-added, interconnection and PHS services. As domestic mobile operators launched service packages at competitive prices, mobile roaming tariffs were lowered, the migration of voice usage from fixed-line to mobile continued. The number of our fixed-line subscribers (including PHS subscribers) decreased by 6.2% to 102.82 million at the end of 2009. The following table sets forth the information of our fixed-line subscribers as of the dates indicated:

	As of December 31,		
	2007	**2008**	**2009**
		(in thousands)	
Number of fixed-line subscribers[(1)]			
Residential Residential	69,337	63,824	61,733
Business	13,295	13,586	14,238
PHS	28,639	23,979	18,742
Public telephones	8,539	8,181	8,109
Total	119,810	109,570	102,822

(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.

We have in the past selectively built wireless local access networks based on PHS technology to offer PHS services as a supplement to our fixed-line services. Although PHS services were once popular among subscribers due to its tariff advantage, beginning in 2006, such advantage diminished as mobile operators continued to launch more aggressive tariff packages. As a result, our PHS subscribers significantly decreased over the past few years. In addition, a policy was issued by the PRC Government 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. See D. Risk Factors Risks Relating to Our Businesses If we fail to achieve a smooth discontinuation of PHS services or retain our PHS subscribers to use our other telecommunications services, our financial condition and results of operations may be adversely affected. under Item 3.

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 business further develops, 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,		
	2007	**2008**	**2009**
Usage of local calls (pulse in millions)[1]			
Total usage	220,180	206,632	188,116
Internet dial-up usage	3,696	2,960	2,577
Total usage excluding Internet dial-up usage	216,484	203,672	185,539

(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

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general decline of our fixed-line business and competition from software applications that allow users to make long distance calls over the Internet, our long distance business 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,		
	2007	2008	2009
Total minutes of domestic long distance calls (minutes in millions)[1]			
Traditional	25,241	25,771	21,261
VoIP	17,181	14,643	11,698
Total	42,422	40,414	32,959

(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,		
	2007	2008	2009
International long distance outbound call minutes (minutes in millions)[1][2]			
Traditional	236	236	221
VoIP	551	456	403
Total	787	692	624

(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 revenues 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. As the number of our fixed-line subscribers continued to decrease in the past few years, the number of customers using our fixed-line value added services also decreased correspondingly. As of December 31, 2009, the number of our Personalized Ring subscribers reached 26.63 million, representing a decrease of approximately 11.5% from the end of 2008. The penetration rate of caller identification services amounted to 71.4%, decreasing by 1.2 percentage point over that of 2008.

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, except for the interconnection by fixed-line subscribers calling our mobile subscribers in the same region where no interconnection fee will be charged. 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. Most 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 April 30, 2010, we had roaming arrangements for (i) GSM international voice and SMS services with 393 operators in 220 countries and regions, (ii) GPRS international inbound data services with 225 operators in 140 countries and regions and for international GPRS outbound data services with 210 operators in 122 countries and regions, and (iii) 3G services with 137 WCDMA operators in 74 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. See B. Related Party Transactions Our Roaming Arrangements under Item 7 for further information regarding prior roaming arrangements between Unicom Group and us.

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 2x15 MHz of spectrum in the 900 frequency band for our GSM network in most of our service areas and 2x20 MHz for certain major cities in China. We use 2x15 MHz of spectrum in the 1900 frequency band for our WCDMA mobile network.

As of the end of 2009, our GSM network switching capacity increased by 56.7% and the number of GSM base stations increased by 36.7% to approximately 285,000 from the end of 2008. The call-completion rate of our GSM service increased to 96.2% at the end of 2009 from 94.2% at the beginning of 2009 and the call-drop rate decreased to 0.41% at the end of 2009 from 0.52% at the beginning of 2009. We also completed the GPRS network upgrade and significantly improved the configuration of static packet data channels. We have devoted significant resources in developing our 3G networks and have established one of the biggest WCDMA networks in the world. As of the end of 2009, our 3G network covers 335 cities in China and the number of our 3G base stations reached approximately 107,000.

Fixed-Line Networks

We operate fixed-line networks which provide extensive coverage in China. These networks are technologically advanced and conducive to the introduction of the next generation fixed-line network and 3G technologies. These networks support a wide range of end-to-end fixed-line telecommunications services and enable customized products to be delivered to meet a variety of telecommunications needs in real-time.

Our fixed-line networks consist of fixed-line telephone networks, broadband Internet and data networks, transmission networks, value-added service platforms, IT support systems and related infrastructures. Our transmission networks consist primarily of fiber-optic based networks, which cover our major service regions, supplemented by satellite transmission and digital microwave links.

We have integrated our resources to optimize and improve the transport capabilities of our IP networks and improved our long-distance soft-switch network capability. In addition, we have fully implemented the upgrade of broadband connection speed and our broadband network capacity was substantially enhanced. By the end of 2009, the number of our IP access ports increased by 38.3% from the end of 2008, of which the number of access ports with an access speed of 2M and over 2M accounts for 96.8%, representing an increase of 32.8 percentage points from the end of 2008, our international outbound bandwidth increased by 148% from the end of 2008, our interconnection bandwidth with China Telecom increased by 49.3% from 2008 and our backbone trunk bandwidth of IP network increased by 69.0% from the end of 2008.

Marketing, Sales and Distribution

Our marketing strategy is to establish our image as a full-service telecommunications service provider and utilize our comprehensive services platform and nationwide sales and distribution network. We implement our marketing and sales strategies under a single unified brand WO and distribute our services through a variety of distribution channels, consisting of (i) self-owned channels, including sales outlets and direct sales forces, (ii) social channels, including cooperative sales outlets, and (iii) electronic distribution channels, such as an online e-store. In recent years, we have continued developing our self-owned sales channels and strengthening our control over social channels through flat management. In particular, for our 3G services, in addition to the full use of our own channels, we have also focused on using high-quality social channels, such as large brand name electronics retail chains and supermarkets in China, to achieve better sales results. Further, we continued promoting our nationwide e-sales system, which has effectively supplemented our traditional sales channels and improve our service quality.

Customer Service

We implement unified service standards and processing procedures in all of our outlets, customer service centers, customer clubs and other customer service channels. Our customer services typically include service inquiry, billing inquiry, response to customer complaints and suggestions, service initiation and termination, payment reminder services, emergency and club membership services. Our customers can access our customer services by

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various means, including a nationwide hotline number 10010 , faxes, e-mails and SMSs. In 2009, we focused on developing customer service with respect to 3G services and promoted tailor-made customer services for our 3G subscribers. We have also established over 300 WO brand stores to enhance our customers experience.

Information Systems

We have established comprehensive information systems in each province, autonomous region and municipality to support our business and management. For business support, we have established core systems composed of a customer relationship management system, a comprehensive billing and accounting system, a comprehensive settlement system and an operation analysis system to support services and marketing of our mobile and fixed-line businesses. For our management support, we have focused on developing a human resource management system and a financial management system to enhance the efficiency of our control and management over our resources. In 2009, we continued to implement system integration and system upgrade with a focus on 3G business related information systems.

Research and Development

We focus on technology innovation in coordination with our various business departments in order to provide technical support to the development of our various businesses. Our research and development activities are focused primarily on 3G technologies and their further development, next generation Internet technologies and businesses, operational planning and development of value-added services. In addition, part of our research and development requirements is fulfilled by our parent company, Unicom Group, in return for a service fee. See B. Related Party Transactions under Item 7 below. With respect to research and development for our broadband business, we mainly rely on Unicom Group s National Laboratory of Next Generation Network in Broadband Application, which is China s only national level engineering laboratory in the information and telecommunications industry, focusing on the research of next generation Internet IPv6, Triple-Play and 3G operating and supporting systems. We have applied for a number of patents and software copyrights in China.

Competition

As a result of the telecommunications industry restructuring in 2008, the Chinese telecommunications market now has three key providers of basic telecommunications service China Telecom, China Mobile and us in addition to thousands of value-added service providers. We compete with China Mobile and China Telecom in virtually all aspects of our business, including mobile services, fixed-line voice services, broadband services and data communications services. We believe that the telecommunications industry restructuring in 2008 has provided an opportunity for us to integrate our various resources with those of China Netcom to create business synergies for the post-merger Unicom. However, we also believe that the restructuring may cause the competition in the telecommunications industry in China to be more intensified and complex in the future. See D. Risk Factors Risks Relating to Our Business We face intense competition in all our businesses from other telecommunications service providers, including China Mobile and China Telecom, which may materially adversely affect our financial condition, results of operations and growth prospects. under Item 3.

Strategic Alliances

Strategic Alliance with Telefónica. On January 30, 2009, we entered into a strategic alliance framework agreement with Telefónica. Pursuant to the framework agreement, Telefónica and we agreed to share business experience and strengthen cooperation in the areas of mobile communications, broadband applications, international business, marketing and sales and telecommunications services to corporate clients. 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 by cooperation based on our respective networks, business models and experience. On October 21, 2009, we and Telefónica completed a mutual investment in the amount of the equivalent of US$1 billion in each other, which was implemented by way of the subscription by Telefónica of 693,912,264 new shares in our Company and the contribution by Telefónica of 40,730,735 treasury shares in the capital of Telefónica to us.

Trademarks

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We conduct our businesses under the Unicom name and logo. Unicom Group is the registered proprietor in China of the Unicom trademark in English and the trademark bearing the Unicom logo. Unicom Group is also the registered proprietor of the trademark of the word Unicom in Chinese ( ). Unicom Group has granted us the right to use these trademarks on a royalty-free basis with periodic renewals, and licensed us any trademark that it registers in China in the future which incorporates the word Unicom.

Regulatory and Related Matters

The telecommunications industry in China is subject to a high degree of government regulation. The primary regulatory authority of the Chinese telecommunications industry is the MIIT, established in 2008 as a new ministry under the PRC State Council and the successor of the former Ministry of Information Industry. The NDRC, the Ministry of Commerce and other governmental authorities also maintain regulatory responsibilities over certain aspects of the Chinese telecommunications industry.

The MIIT, under the supervision of the State Council, is responsible for, among other things:

- formulating and enforcing industry policies and regulations, as well as technical standards;
- granting telecommunications service licenses;
- supervising the operations and quality of services of telecommunications service providers;
- allocating and administering telecommunications resources such as spectrum and number resources;
- together with other relevant regulatory authorities, formulating tariff standards for telecommunications services;
- formulating interconnection and settlement policies between telecommunications networks; and
- maintaining fair and orderly market competition among service providers.

The MIIT has established a Telecommunications Administration in each province, which is mainly responsible for overseeing the implementation of the MIIT s policies and regulations and exercising regulatory authority delegated by the MIIT within that province.

The NDRC, together with the MIIT, sets government fixed tariffs and government guidance tariffs for certain telecommunications services. See Tariff Setting and Price Controls below. It also approves investment projects within the restricted sectors specified in an annually adjusted catalogue released by the State Council.

The MIIT is in the process of drafting a telecommunications law that, once adopted by the National People s Congress of the PRC, will become the basic telecommunications statute and provide the principal legal framework for telecommunications regulations in China. It is currently uncertain when the law will be adopted and become effective. See D. Risk Factors Risks Relating to the Telecommunications Industry in China 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. under Item 3.

Telecommunications Regulations

On September 25, 2000, the PRC State Council promulgated the Telecommunications Regulations of the People s Republic of China, which came into effect on the same date. All telecommunications activities and related activities within China are subject to the Telecommunications Regulations.

According to the PRC Government, its administration and regulation of the Chinese telecommunications

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industry is based on the principles of the separation of governmental regulation from enterprise management, the elimination of monopolistic behavior, the encouragement of competition and the promotion of the development of the Chinese telecommunications industry, while also taking into account the principles of openness, equality and fairness. The Telecommunications Regulations regulate all major aspects of the telecommunications industry, including licensing, interconnection, tariffs, resources, services, security, facility construction and access to networks.

Licensing

The PRC Government licenses telecommunications businesses in accordance with their classification. Telecommunications businesses are currently classified into two broad categories of basic services and value-added services. An appendix to the Telecommunications Regulations divides each of the two categories into further sub-categories. On March 21, 2003, the former Ministry of Information Industry amended the categorization in this appendix and the amendments took effect on April 1, 2003. According to the amended appendix:

- basic telecommunications services are classified into Category I basic telecommunications services and Category II basic telecommunications services. Category I basic telecommunications services include fixed-line telecommunications services (including fixed-line local, domestic long distance, international long distance and IP telephone services and services related to maintaining international telecommunications facilities), mobile telecommunications services (including 900/1800MHz GSM 2G, 800MHz CDMA 2G and 3G digital cellular mobile telecommunications services), Category I satellite telecommunications services (including satellite mobile telecommunications and international satellite private-line services) and Category I data communications services (including Internet data transmission, international data telecommunications, public telegraph and telex services). Category II basic telecommunications services include trunking telecommunications services (including analogue trunking telecommunications and digital trunking telecommunications services), wireless paging services, Category II satellite telecommunications services (including lease and sales of satellite transponders and very-small-aperture-terminal, or VSAT, telecommunications services), Category II data telecommunications services (including fixed-line domestic and wireless data transmission services), network access services (including wireless network access services and network services from customer premises), services related to maintaining domestic telecommunications facilities and network hosting services.

- value-added telecommunications services are classified into Category I value-added telecommunications services and Category II value-added telecommunications services. Category I value-added telecommunications services include on-line data processing and interchange, domestic multi-party telecommunications, IP-VPN and Internet data center, or IDC, services. Category II value-added telecommunications services include store-and-forward, call center, Internet access and information services.

On March 1, 2009, the MIIT promulgated the Measures on the Administration of Telecommunications Business Licenses, which took effect on April 10, 2009 and superseded the previous measures promulgated by the former Ministry of Information Industry on December 26, 2001.

The measures govern the application for, approval of and regulation of telecommunications business licenses in China. The operation of any basic telecommunications business is subject to the MIIT s approval and grant of License for Operation of Basic Telecommunications Businesses. The operation of any value-added business in two or more provinces, autonomous regions or municipalities is subject to the MIIT s approval and grant of License for Inter-Provincial Operation of Value-Added Telecommunications Businesses. The operation of value-added businesses within a single province, autonomous region or municipality is subject to the approval of the telecommunications authority of the relevant province, autonomous region or municipality and the grant of the License for Operation of Value-Added Telecommunications Businesses. The measures, among other things, lowered the minimum amount of registered capital required for an applicant to enter the basic telecommunications business in the PRC.

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After the PRC s accession to the WTO, on December 11, 2001, the PRC State Council promulgated the Administrative Regulations on Telecommunications Companies with Foreign Investments, which took effect on January 1, 2002, and were amended on September 10, 2008, to implement China s commitments to the WTO. Those commitments include the gradual reduction of restrictions on foreign ownership in telecommunications enterprises in China and the step-by-step opening up of the Chinese telecommunications market to foreign enterprises. In recent years, China gradually lifted restrictions for foreign investors in telecommunications enterprises in China and fulfilled its commitment to open up the Chinese telecommunications market. However, the following restrictions on investments in mobile, value-added telecommunications and fixed-line businesses remain:

- for fixed-line services, there is no longer any geographic restriction and foreign ownership may be no more than 49%;
- for mobile voice and data services, there is no longer any geographic restriction and foreign ownership may be no more than 49%; and
- for value-added telecommunications services, there is no longer any geographic restriction and foreign ownership may be no more than 50%.

Spectrum and Network Number Resources

The MIIT is responsible for the management of the wireless radio frequency spectrum and the allocation of frequencies within the spectrum. The frequency assigned to a telecommunications operator may not be leased or transferred without the MIIT s approval. Standard fees for usage of the frequencies assigned to cellular telecommunications are charged to telecommunications operators: (i) for the nationwide GSM and CDMA network frequency, an annual rate of RMB17 million per MHz is charged for the 900MHz band and an annual rate of RMB15 million per MHz is charged for the 1800 MHz band; and (ii) for any local telecommunications network frequency, an annual rate of RMB1.7 million per MHz is charged for each province for the 900MHz band and an annual rate of RMB1.5 million per MHz is charged for each province for the 1800 MHz band.

The MIIT is also responsible for the administration of China s telecommunications network number resources. The telecommunications network number resources are owned by the State, which shall charge fees for the use of such resources. Application for the use of number resources by any telecommunications operator is subject to the approval of the MIIT or the relevant provincial telecommunications authority and the payment of certain usage fees. The measures also provide for the procedures for the application, usage and record keeping for the telecommunications operators use of number resources.

Tariff Setting and Price Controls

The levels and categories of our current tariffs are subject to regulation by various government authorities, including the MIIT, the NDRC, and, at the local level, the relevant provincial Telecommunications Administration Bureaus and price regulatory authorities. Under the Telecommunications Regulations, telecommunications tariffs are categorized into State-fixed tariffs, State-guidance tariffs and market-based tariffs.

The monthly fee and usage fee for local telephone service are regulated as fixed tariffs, which are fixed jointly by the MIIT and the NDRC. The MIIT regulates the maximum tariffs for traditional domestic long distance services, traditional international long distance services to Hong Kong, Macau and Taiwan. Leased line and data services (other than ATM service) are charged at State-guidance tariffs, which are determined jointly by the MIIT and the NDRC.

The Notice on Implementation of Market-Based Tariffs for Certain Telecommunications Services, promulgated jointly by the former Ministry of Information Industry and the NDRC in 2002, specifies the telecommunications businesses to which market-based tariffs are applicable, including VoIP, Internet access services, and certain value-added services provided over fixed-line telephone networks, such as telephone information, caller identification and voice mail. Market-based tariffs shall be applicable to those telecommunications services for which effective competition exists in the market. The tariffs of such telecommunications services are determined at the sole

discretion of the operators, and will be implemented after filing with the MIIT or provincial Telecommunications Administration Bureaus, as applicable. There is uncertainty regarding how the MIIT determines the existence of effective competition, as the MIIT has not publicly disclosed the criteria it uses for determining whether a certain type of service should be subject to market-based tariffs. Under the Telecommunications Regulations, cost is the primary basis for tariff setting, but the tariff levels also take into account social and economic development, the development of the telecommunications industry and the purchasing power of the customers. The MIIT has not provided a timetable for tariff deregulation or indicated that operators will eventually be permitted to freely set all tariffs. We expect that increased flexibility in setting certain tariffs will allow us to better respond to changes in market demand and competitive conditions.

The PRC Government retains the ultimate authority to adopt changes to tariffs. However, the Telecommunications Regulations require the government to hold public hearings before setting or changing important State-tariff rates, which are attended by telecommunications operators, consumers and others. Operators are required to provide complete and adequate cost data and other materials for those hearings.

The following tables set forth the tariff rates of certain services provided by us, where government fixed tariffs or government guidance tariffs are applicable:

Mobile Business

Generally the categories of tariffs we charge our mobile subscribers include, among others, basic monthly fees and local usage charges, roaming charges, long-distance call charges and charges for value-added services. Mobile tariffs are set forth by the MIIT and tariff adjustments are subject to regulation by various government authorities, including the MIIT, the NDRC and the relevant provincial price regulatory authorities. The following table summarizes the current tariffs for post-paid and pre-paid mobile services:

	Post-paid Services (RMB)	**Pre-paid Services (RMB)**
Basic monthly fee	45-50	0
Local usage charge (per minute)	0.36-0.40	0.54-0.6
Domestic roaming charge (per minute)	0.6 for caller 0.4 for receiver	0.6 for caller 0.4 for receiver

Intensified competition in our mobile service areas has resulted in tariff discounts and service promotions offered by us and our main competitors from time to time, which may reduce the effective tariffs. These discounts and promotions have taken many forms, including promotional tariff rates, free call minutes, reduced roaming charges, off-peak discounts or discounts for high-usage subscribers and package service plans with fixed monthly fees.

We have introduced a number of package service plans. Under these plans, subscribers typically pay a fixed monthly fee for a specified number of call minutes. The plans vary at the levels of fixed monthly fee, number of specified call minutes and tariff rates for call minutes in excess of the specified call minutes. The terms of these plans also vary depending on the local markets.

In 1997, the PRC Government granted us preferential treatment by allowing us to reduce our tariffs by up to 10% below the State-guidance tariff rates. In the past, this preferential treatment has helped us capture a significant number of mobile subscribers by allowing us to market our mobile services at discounted rates. As we and our main competitors introduced various package service plans and other promotional programs, the tariff structure has become more complex, which, to some extent, has made our price advantages less obvious to subscribers compared to previous tariffs that were largely based on simple per-minute charges.

Fixed-Line Voice Business

For our local voice services, we charge a registration fee for initial installation that varies depending on whether the subscriber is a residential or a business customer, a fixed monthly fee, local call usage fees based on call duration and fees for certain value-added services. For our domestic long distance services, our revenues from

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domestic long distance services consist of charges based on the duration, time of day and day of the week a call is placed. In addition, we currently charge RMB 0.30 per minute in addition to a long distance fee for our VoIP domestic long distance services. For our international long distance services, our charges are subject to the maximum tariffs regulated by the MIIT.

The following table sets forth our current tariffs for (i) local voice services provided on our traditional and PHS network, (ii) domestic long distance telephone services using our traditional network and (iii) our international long distance telephone services using our traditional network:

Local Voice Services	**Tariff (RMB)**
Monthly fee:	
Residential subscribers in:	
Provincial capitals	20.00 to 25.00
Other cities and counties	12.00 to 18.00
Rural areas	10.00 to 15.00
Business subscribers	25.00 to 35.00
Usage fee:	
Intra-district	0.18 to 0.22 for the first two pulses (first three minutes or less) and 0.09 to 0.11 for each additional pulse (one minute intervals)
Inter-district	up to 0.30 per pulse (one minute intervals)
Communication fee:	
Internet dial-up	0.02 per pulse (one minute intervals)
Domestic long distance services on our traditional network(1)	0.07 per six seconds
International long distance services on our traditional network(1):	
To Hong Kong, Macau and Taiwan	0.20 per six seconds
To all international destinations	0.80 per six seconds

(1) Subject to filing with the provincial telecommunications administrations, our provincial level headquarters may apply a 10% to 50% discount rate to calls made during off-peak hours.

Managed Data Services

The PRC Government publishes guidance tariffs for certain managed data services, including DDN and frame relay services, provided by operators in China. Tariffs for our ATM services are determined at our discretion, subject to approval by the MIIT. An initial fee is generally charged for installation and testing for our data services, as well as a fixed monthly fee for each of the services.

DDN services. The following table sets forth the monthly fees for DDN services at the bandwidths of 64kbps, 128kbps, 512kbps and 1Mbps:

	Monthly Fee			
	64kbps	**128kbps**	**512kbps**	**1Mbps**
		(RMB)		
Intra-district	1,500	2,000	3,800	5,000
Inter-district	2,000	2,500	5,200	7,500
Domestic long distance	3,500	5,000	7,000	9,000

Frame relay services. The following tables set forth the monthly fees for frame relay services, which include monthly fees for port access and permanent virtual circuits, or PVCs[(1)]:

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	Monthly Fee			
	64kbps	256kbps	512kbps	1Mbps
	(RMB)			
Port access				
Monthly fees	260	400	500	750
PVC				
Intra-district	550	800	1,000	1,250
Inter-district	800	1,150	1,450	2,000
Domestic long distance	1,700	2,200	2,500	3,000

(1) One-way tariff for PVCs frame relay services.

Leased Line Services

We charge monthly fees for subscribers to our leased line services based on guidance tariffs set by the PRC Government, which vary based on bandwidth and whether the leased line is local or long distance. Leased line tariffs have generally decreased in recent years.

The following table sets forth the tariffs for 2Mbps, 8Mbps, 34Mbps and 155Mbps digital circuits:

	Monthly Fee			
	2Mbps	8Mbps	34Mbps	155Mbps
	(RMB)			
Intra-district	2,000	6,000	16,000	44,000
Inter-district	4,000	11,000	31,000	88,000
Domestic long distance[(1)]	6,000	17,000	47,000	132,000

(1) Does not include the tariffs for local digital circuits and access lines.

Interconnection Arrangements

In October 2003, the former Ministry of Information Industry issued Measures on Settlement of Interconnection between Public Telecommunications Networks and Sharing of Relaying Fees, which superseded the Measures on the Settlement of Call Charges between Telecommunications Networks issued by the former Ministry of Information Industry in 2001. These regulations contain specific provisions regarding, among other things, revenue sharing methods and settlement mechanisms and interconnection agreements among telecommunications service providers. Since November 2005, the former Ministry of Information Industry (or the MIIT after March 2008) has issued a number of administrative measures to adjust the settlement arrangement standards with respect to interconnection fees for certain network interconnections between telecommunications operators. In accordance with various administrative measures, Unicom Group has entered into agreements on interconnection with other telecommunications operators, including China Telecom and China Mobile.

The following table sets forth selected interconnection revenue sharing and settlement arrangements for local calls:

Operator from Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Mobile operator	Local fixed-line operator	(1) Mobile operator collects the usage fees from its

		subscribers; (2) Mobile operator pays RMB0.06 per minute to local fixed-line operator. For calls originated from 157 or 188 prefix phone numbers (TD users) during the period from January 1, 2010 to December 31, 2010, mobile operator (China Mobile) pays RMB0.012 per minute to fixed-line operator.
Local fixed-line operator	Mobile operator	(1) Local fixed-line operator collects the usage charge from its subscribers; (2) No revenue sharing or settlement prior to June 1, 2010. Local fixed-line operator pays RMB0.001 per minute to mobile operator after June 1, 2010.

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Operator from Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Mobile operator A	Mobile operator B	(1) Mobile operator A collects the cellular usage charge from its subscribers; (2) Mobile operator A pays RMB0.06 per minute to mobile operator B. For calls originated from 157 or 188 prefix phone numbers (TD users) during the period from January 1, 2010 to December 31, 2010, mobile operator A (China Mobile) pays RMB0.012 per minute to mobile operator B.
Local fixed-line operator A	Local fixed-line operator B	(1) Operator A collects the usage fees from its subscribers; (2) In the case of Intra-district calls, operator A pays operator B 50% of the intra-district usage fees; (3) (i) In the case of local inter-district calls from operator A using operator B s local inter-district trunk circuit, operator A collects the usage charge from its subscribers and pay RMB0.06 per minute to operator B; (ii) In the case of local inter-district calls from operator A not using operator B s local inter-district trunk circuit, operator A collects the usage charge from its subscribers and pays operator B 50% of the intra-district usage fees.

The following table sets forth selected current major main interconnection revenue sharing and settlement arrangements for domestic long distance calls:

Operator at Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
	Local fixed-line or mobile operator B	

Local fixed-line or mobile operator A (through the long distance network of operator A)		Operator A pays RMB0.06 per minute to operator B
Fixed-line or mobile operator A	Domestic long distance calls made without using the carrier identity code of operator B	(1) Operator A collects the tariff from the subscribers; (2) If operator A is a fixed-line operator, operator A retains RMB0.06 per minute; if operator A is a mobile operator, operator A retains local usage fee and RMB0.06 per minute; and (3) Operator A pays operator B the rest of the domestic long distance tariff. Note: Domestic long distance calls shall be charged at the domestic long distance call tariff of operator B.
Local fixed-line or mobile operator A	Domestic long distance calls made by using the carrier identity code of operator B	(1) Operator B collects the tariff from the subscribers; and (2) Operator B pays operator A RMB0.06 per minute.

The following table sets forth selected current main interconnection revenue sharing and settlement arrangements

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for public switched telephone network international long distance calls, including calls originated from and terminated in Hong Kong, Macau and Taiwan:

Operator at Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Local fixed-line or mobile operator A	International long distance calls (including to Hong Kong, Macau and Taiwan) made without using the carrier identity code of operator B and directed by operator A from the originating network to operator B.	(1) Operator A collects the tariff from the subscribers; (2) If operator A is a fixed-line operator, operator A retains no more than RMB0.54 per minute with the remaining paid to operator B; (3) If operator A is a mobile operator, operator A retains local usage fees and no more than RMB0.54 per minute with the remaining paid to operator B. Note: International long distance calls shall be charged at the international long distance call tariff of operator B.
Local fixed-line or mobile operator A	International long distance calls made by using the carrier identity code of operator B and through the domestic and international long distance networks of operator B.	(1) Operator B collects the tariff from the subscribers; and (2) Operator B pays operator A RMB0.06 per minute.

The following table sets forth selected current main interconnection revenue sharing and settlement arrangements for VoIP long distance calls:

Operator from Whose Network Calls are Originated	Operator at Whose Network Calls are Terminated	Current Main Settlement Arrangement
Fixed-line or mobile operator A	Fixed-line or mobile operator B through the VoIP network of operator C	(1) Operator A collects local usage fees; (2) Operator C collects the VoIP long distance usage fees from its subscribers; (3) Operator C pays RMB0.06 per minute to operator B on the terminating end; (4) No settlement between operator C and operator A on the originating end.

The following table sets forth selected current main interconnection revenue sharing and settlement arrangements for SMS:

Network from Which	Network at Which	Current Main Settlement

SMS Originated	SMS Terminated	Arrangement
Fixed-line or mobile operator A	Fixed-line or mobile operator B	(1) Operator A collects the tariff from its subscribers; (2) Operator A pays RMB0.03 (RMB0.05 prior to January 1, 2010) per SMS to Operator B

The following table sets forth selected current main interconnection revenue sharing and settlement arrangements for MMS:

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Network from Which MMS Originated	Network at Which MMS Terminated	Current Main Settlement Arrangement
Fixed-line or mobile operator A	Fixed-line or mobile operator B	(1) Operator A collects the tariff from its subscribers; (2) Operator A pays RMB0.10 (RMB0.15 prior to January 1, 2010) per MMS to Operator B

Technical Standards

The MIIT is responsible for promulgating the technical standards for China s telecommunications industry and establishing the technical requirements and testing parameters for telecommunications equipment (including network and end user equipment). The MIIT is also responsible for designating qualified institutes to test telecommunications equipment, which would grant network access licenses for the equipment that has successfully passed the relevant tests. Only telecommunications equipment for which a license has been granted may be sold and used in China.

Most of the standards used in the Chinese telecommunications industry are generally based on the standards issued by the International Telecommunication Union, or ITU, 3rd Generation Partnership Project, 3rd Generation Partnership Project 2 and other international organizations for telecommunications standards, with more specific requirements made in light of China s particular telecommunications industry. On the basis of the technical standards used in China s telecommunications industry, we may formulate our own technical standards based on our own needs and issue additional requirements for telecommunications equipment in order to meet our operational needs. All telecommunications equipment purchased by China s telecommunication operators must have been granted a network access license issued by the MIIT and must meet the standards set forth by the relevant operators.

Quality of Service

Under the Telecommunications Regulations, the MIIT and the relevant provincial telecommunications administrations are responsible for supervising and monitoring the quality of services provided by telecommunications operators in China. Under the Telecommunications Regulations, customers of telecommunications operators have the right to submit their complaints to the MIIT and the relevant provincial telecommunications administrations or other relevant government authorities. In addition, the MIIT, together with other governmental authorities, has taken measures to prompt telecommunications operators to screen indecent contents carried through their networks.

Universal Services

Telecommunications service providers in China are required to fulfill universal service obligations in accordance with relevant regulations to be promulgated by the PRC Government, and the MIIT has the authority to delineate the scope of its universal service obligations. The MIIT may also select universal service providers through a tendering process. The MIIT, together with the 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. Under the Telecommunications Regulations, all PRC telecommunications operators shall provide universal services, and we expect to perform our duties thereunder accordingly.

The MIIT has required major Chinese telecommunications service providers, including Unicom Group and former Netcom Group, to participate in a project to provide telecommunications services in a number of remote villages in certain designated provinces in China as transitional measures prior to the formalization of a universal service obligation framework. In participating in this project, Unicom Group has undertaken the universal service obligation to extend telecommunications service coverage to all administrative-level villages primarily through its transmission networks. Currently, with our assistance, Unicom Group is further extending telecommunications service coverage to natural villages in remote areas in China as designated by the MIIT. We have been assisting Unicom Group in providing mobile telecommunications services to these remote villages and are responsible for the operation and maintenance of the relevant network facilities in our service areas. See D. Risk Factors Risks Relating to the Telecommunications Industry in China The PRC Government may require us, along with other

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telecommunications service providers in China, to provide universal services with specified obligations, and we may not be compensated adequately for providing such services. under Item 3.

Convergence Policy of Telecom, Broadcasting and Internet Networks

In January 2010, the PRC government announced its decision to accelerate the advancement of convergence of television broadcast, telecommunications and Internet access networks to realize interconnection and resource sharing among the three networks and further develop the provision of voice, data, television and other services. Specifically, the three-network convergence policy will be initially carried out on a trial basis in selective geographic locations during the period from 2010 to 2012 and further implemented across-the-board in the following three years. The PRC government may amend relevant policies or promulgate new regulations corresponding to the implementation of the three-network convergence policy in the future.

Others

As a company with substantially all of our operations in China, we, along with our controlling shareholder, Unicom Group, are subject to various regulations of the PRC Government in addition to those regulating the telecommunications industry. PRC regulatory authorities, such as the State Bureau of Taxation, National Audit Office, SAIC and local price bureaus, exercise extensive control over various aspects of our businesses and conduct various regular inspections, examinations and/or audits on us and Unicom Group. As required by the relevant PRC laws and regulations, Unicom Group, as one of the key State-owned enterprises under the direct supervision of the SASAC, is also subject to routine audits by the National Audit Office, or the NAO, including the senior management departure audit which involves a mandatory review by the NAO of the economic responsibilities of a departing senior management member of Unicom Group.

In addition, SASAC has an indirect influence over us as our controlling shareholder, Unicom Group, is under the direct supervision of SASAC. In particular, SASAC may designate certain nominees and request Unicom Group to propose the appointment of such nominees as our directors and senior management. SASAC may also request Unicom Group to remove our directors and senior management in accordance with relevant procedures provided by applicable law and our articles of association.

C. Organizational Structure

We are incorporated in Hong Kong and as of May 31, 2010, we were 41.27% owned by Unicom BVI, which was 17.90% owned by Unicom Group and 82.10% owned by the A Share Company, which in turn was 61.05% owned by Unicom Group, 29.74% owned by Netcom BVI, which in turn was 100% owned by Unicom Group, 20.62% owned by public shareholders and 8.37% owned by Telefónica. See A. History and Development of the Company above. Set forth below are details of our directly wholly owned subsidiaries:

Name of Subsidiary	Country of Incorporation	Ownership Interest
China United Network Communications Corporation Limited	China	100%
China Netcom Group Corporation (Hong Kong) Limited	Hong Kong	100%
China Unicom (Hong Kong) Operations Limited	Hong Kong	100%
China Unicom (Americas) Operations Limited	United States	100%
China Unicom (Singapore) Operations Pte. Ltd.	Singapore	100%
China Unicom (Europe) Operations Limited	United Kingdom	100%
China Unicom (Japan) Operations Corporation	Japan	100%

D. Properties

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Our principal executive offices are located in Hong Kong. We also maintain executive offices in Beijing. We own and lease a large number of offices, retail outlets, equipment rooms and base stations throughout China. In some cases, we have not entered into formal lease agreements with the lessors or the lessors may not possess requisite title certificates. We believe that it is unlikely that we would be denied our right to use a large number of these properties at any given time.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

You should read the following discussion and analysis in conjunction with the selected financial data set forth in Item 3 and our consolidated financial statements, together with the related notes, included elsewhere in this annual report on Form 20-F.

Acquisitions of Fixed-Line Business in 21 Provinces in Southern China and Other Assets from Parent Companies, Merger with China Netcom, Acquisitions of Unicom Guizhou and Design Institute, and Disposal of CDMA Business and Fixed-Line Business and Assets in Shanghai and Guangdong

We completed (i) 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 telecommunication assets from Unicom Group and Netcom Group (which was later merged with Unicom Group in January 2009) in January 2009 and (ii) a merger with China Netcom in October 2008. See A. History and Development of the Company 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 we and the Target Business were under common control of Unicom Group, both prior to and after the acquisitions, and 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. In addition, we completed an acquisition of assets and business of the Guizhou Province branch of Unicom Group, or Unicom Guizhou, from Unicom Group in December 2007 and prior to its merger with us, China Netcom completed an acquisition of the entire equity interest of Beijing Planning and Design Institute, or Design Institute, a wholly-owned subsidiary of Netcom Group, in December 2007. Because we and Unicom Guizhou were under the common control of Unicom Group both prior to and after our acquisition of Unicom Guizhou and China Netcom and Design Institute were under the common control of Netcom Group (which merged with, and was absorbed by, Unicom Group in January 2009) both prior to and after China Netcom s acquisition of Design Institute, both acquisitions have been accounted for using merger accounting in accordance with AG5 issued by the HKICPA. 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. The acquired assets and liabilities mentioned above in this paragraph are stated at historical cost, 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. Accordingly, the 2007 and 2008 comparative figures in the consolidated financial information included in this Form 20-F have been restated to reflect the financial position, results of operations and cash flows of these acquired businesses.

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 is presented separately as discontinued operations in our audited consolidated statements of income and statements of cash flows for the years ended December 31, 2007 and 2008.

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Prior to our merger with China Netcom, China Netcom completed the disposal of the fixed-line telecommunications and related services in its Guangdong and Shanghai branches in February 2007. See A. History and Development of the Company History and Corporate Development of China Netcom under Item 4. After considering that we reacquired the fixed-line business in Guangdong and Shanghai branches in January 2009, we did not present the fixed-line business in Guangdong and Shanghai branches as discontinued operations and derecognized the gain on disposal previously recorded in our 2007 consolidated financial statements.

Overview

As a result of our merger with China Netcom in October 2008, we have become 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 through our two operating segments comprised of mobile services and fixed-line services. Following our acquisition of fixed-line business in 21 provinces in southern China from our parent companies in January 2009, we have extended the coverage of all of our services nationwide. 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 under Item 4.

The table below sets forth revenues from our major businesses and their respective percentage of our total revenue from continuing operations in 2007, 2008 and 2009 (excluding (i) fixed-line upfront connection fees of RMB1,517 million in 2007, RMB886 million in 2008 and RMB490 million in 2009 and (ii) interconnection revenue of RMB1.00 billion and RMB0.99 billion between certain fixed-line business and the discontinued operations of CDMA business in 2007 and 2008, respectively).

	For the Year Ended December 31,					
	2007		2008		2009	
	RMB in millions	As % of Total	RMB in millions	As % of Total	RMB in millions	As % of Total
Continuing Operations						
Total revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business)[1]	157,426	100.0	157,914	100.0	153,455	100.0
Total telecommunications service revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business)	151,235	96.1	150,953	95.6	149,103	97.2
Include: Mobile business	62,236	39.5	64,240	40.7	69,769	45.5
Fixed-line business	88,579	56.3	86,376	54.7	79,059	51.5
Out of which:						
Broadband service	16,450	10.4	20,962	13.3	23,898	15.6
Information communication technology services and other revenue	5,197	3.3	5,062	3.2	2,189	1.4
Total sales of telecommunications products	994	0.6	1,899	1.2	2,163	1.4

(1) Fixed-line upfront connection fees represent the

amortization of deferred upfront connection fees received from the customers before July 1, 2001. No upfront connection fee was received from the customers since then. In addition, upon disposal of the CDMA business in 2008, interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business will not be recognized anymore. Therefore, we consider that analyses of our operating results excluding upfront connection fees and interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business are more relevant to the readers of this report.

Our telecommunications service revenues from continuing operations primarily consist of the following:

usage fees and monthly fees for our mobile and fixed-line telephone services, which are recognized when we render the service to our customers;

revenue from the provision of value-added services, which is recognized when we render the services to our customers;

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revenue from the provision of broadband and other Internet-related services, mainly consisting of Internet access services, and managed data services, which is recognized when we render the service to our customers;

revenue from telephone cards, which is service fees received from customers for telephone services, is recognized when we render the related service upon actual usage of the telephone cards by customers;

revenue from interconnection with other telecommunications operators for calls made from their networks to our networks. We recognize interconnection revenue when the relevant calls are made by subscribers;

revenue for offerings which include the sale of mobile handsets and provision of services, the amount of revenue allocated to the handset sale is determined using the residual value method. Under such method, we determine the revenue from the sale of the mobile handsets by deducting the fair value of the service element from the total contract consideration. We recognize revenues related to sale of a handset when the title is passed to the customer whereas service revenues are recognized based upon the actual usage of mobile services. The cost of the mobile handset is expensed immediately to the statement of income.

revenue from information communications technology services, are recognized when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provide can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided is recoverable, service revenue should be recognized only to the extent of reasonable costs incurred, and costs should be recognized as current expenses in the period in which they are incurred, (ii) if it is probable that costs incurred will not be reasonable, costs should be recognized as current expenses immediately and service revenue should not be recognized; and

rental income from leases of customer-end equipment and transmission lines on our networks to business customers and other telecommunications carriers in China. We recognize leased line rental revenue on a straight-line basis over the relevant lease term.

The following table sets forth our major costs and expenses items and income before income tax, both in terms of amount and as a percentage of total revenue from continuing operations in 2007, 2008 and 2009 (excluding (i) fixed-line upfront connection fees of RMB1,517 million in 2007, RMB886 million in 2008 and RMB490 million in 2009 and (ii) interconnection revenue of RMB1.00 billion and RMB0.99 billion between certain fixed-line business and the discontinued operations of CDMA business in 2007 and 2008, respectively).

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	For the Year Ended December 31,					
	2007		2008		2009	
	RMB in millions	% of Total	RMB in millions	% of Total	RMB in millions	% of Total
Continuing Operations						
Total revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business)[1]	157,426	100.0	157,914	100.0	153,455	100.0
Costs, expenses and others	131,856	83.8	150,139	95.1	141,668	92.3
Interconnection charges	12,198	7.7	13,038	8.3	12,955	8.4
Depreciation and amortization	47,625	30.2	47,961	30.4	47,587	31.0
Networks, operations and support expenses	17,877	11.4	18,736	11.9	21,728	14.2
Leasing fee for telecommunications networks in southern China					2,000	1.3
Employee benefit expenses	19,398	12.3	20,758	13.0	21,931	14.3
Selling and marketing	19,660	12.5	19,614	12.4	21,020	13.7
Cost in relation to information communication technology services	3,808	2.4	3,010	1.9	839	0.5
General, administrative and other expenses	11,776	7.5	12,968	8.2	12,175	7.9
Cost of telecommunications products sold	1,109	0.7	2,156	1.4	2,689	1.8
Finance costs, net of interest income	2,936	1.9	2,158	1.4	945	0.6
Impairment loss on property, plant and equipment			11,837	7.5		
Realized loss on changes in fair value of derivative component of convertible bonds	569	0.4				
Realized gains on changes in fair value of derivative financial instrument					(1,239)	(0.8)
Other income-net	(5,100)	(3.2)	(2,097)	(1.3)	(962)	(0.6)

(1) Fixed-line upfront connection fees represent the amortization of deferred upfront connection fees received from the customers before July 1, 2001. No upfront connection fee

was received from the customers since then. In addition, upon disposal of the CDMA business in 2008, interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business will no longer be recognized. Therefore, we consider that analyses of our operating results excluding upfront connection fees and interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business are more relevant to the readers of this report.

Our major costs and expenses include the following:

- interconnection expenses, representing amounts paid to other operators for calls from our networks to their networks and for calls made by our subscribers roaming in their networks;

- depreciation and amortization expenses, mainly relating to our property, plant and equipment and other assets;

- networks, operations and support expenses, mainly relating to repair, maintenance and operations of our networks;

- leasing fee for telecommunications networks in southern China;

- employee benefit expenses, representing staff salaries and wages, bonuses and medical benefits, contributions to defined contribution pension schemes, housing benefits and share-based compensation costs amortized over

the vesting period of share options;

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selling and marketing expenses, including commissions, promotion and advertising expenses, direct incremental costs for activating subscriber services and customer retention costs;

cost in relation to information communication technology services, primarily including cost of hardware sold ; and

general, administrative and other expenses, primarily including provision for doubtful debts, utilities, general office expenses and travel expenses.

Critical Accounting Policies

The preparation of our financial statements and this annual report on Form 20-F requires us to make estimates and judgments that affect the reported and disclosed amounts of assets and liabilities, including contingent assets and liabilities, as of the relevant dates and revenue and expenses for the relevant periods. We have identified below the areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the accounting policies and estimates, as critical to our business operations and an understanding of our results of operations and financial position. The impact and any associated risks related to these policies on our business operations are discussed throughout this Item 5 where such policies affect our reported and expected financial results. For a discussion of the application of these and other accounting policies, see Note 4 to our consolidated financial statements included in this annual report. There can be no assurance that actual results will not differ from those estimates and assumptions.

Significant Accounting Policies

Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the services and sales of goods or telecommunications products in the ordinary course of our business activities. Revenue is shown net of business tax, government surcharges, returns and discounts and after eliminating sales within our company.

We recognize revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of our activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. We base our estimates on historical results, taking into consideration of the type of customer, the type of transaction and the specifics of each arrangement.

Sales of services and goods

Usage fees and monthly fees are recognized when the services are rendered;

Revenues from the provision of broadband and other Internet-related services and managed data services are recognized when the services are provided to customers;

Revenue from telephone cards, which represents service fees received from customers for telephone services, is recognized when the related service is rendered upon actual usage of the telephone cards by customers;

Lease income from leasing of lines and customer-end equipment are treated as operating leases with rental income recognized on a straight-line basis over the lease term;

Value-added services revenue, which mainly represents revenue from the provision of services such as SMSs, Cool Ringtone, personalized ring, caller number display and secretarial services to subscribers, is recognized when service is rendered;

Standalone sales of telecommunications products, which mainly represent handsets and accessories, are recognized when title has been passed to the buyers;

For offerings which include the sale of mobile handsets and provision of services, the amount of revenue allocated to the handset sale is determined using the residual value method. Under such method, we determine the revenue from the sale of the mobile handsets by deducting the fair value of the service element from the total contract consideration. We recognize revenues related to sale of a handset when the title is passed to the customer whereas service revenues are recognized based upon the actual usage of mobile services. The cost of the mobile handset is expensed immediately to the statement of income.

Revenue from information communications technology services are recognized when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided are recoverable, services revenue should be recognized only to the extent of recoverable costs incurred, and costs should be recognized as current expenses in the period in which they are incurred; (ii) if it is probable that costs incurred will not be recoverable, costs should be recognized as current expenses immediately and services revenue should not be recognized.

Interest income

Interest income from deposits in banks or other financial institutions is recognized on a time proportion basis, using the effective interest method.

Dividend income

Dividend income is recognized when the right to receive payment is established.

Deferred Revenue, Advances from Customers and Subscriber Points Reward Program

Deferred revenue

Deferred revenue mainly represents upfront non-refundable revenue, including upfront connection fees and installation fees of fixed-line business and receipts from the activation of SIM/USIM cards relating to our mobile businesses, which are deferred and recognized over the expected customer service period.

Advances from customers

Advances from customers are amounts paid by customers for prepaid cards, other calling cards and prepaid service fees, which cover future telecommunications services (over a period of one to twelve months). Advances from customers are stated at the amount of proceeds received less the amount already recognized as revenues upon the rendering of services.

Subscriber points reward program

The fair value of providing telecommunications services and the subscriber points reward are allocated based on their relative fair values. The allocated portion of fair value for the subscriber points reward is recorded as deferred revenue when the rewards are granted and recognized as revenue when the points are redeemed or expired. The fair value of deferred revenue is estimated based on (i) the value of each bonus point awarded to subscribers, (ii) the number of bonus points related to subscribers who are qualified or expected to be qualified to exercise their redemption right at each balance sheet date, and (iii) the expected bonus points redemption rate. The fair value of the outstanding subscriber points reward is subject to review by management on a periodic basis.

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Critical Accounting Estimates and Judgments

Recognition of Upfront Non-refundable Revenue and Direct Incremental Costs

We defer and amortize upfront activation fees of SIM/USIM cards of the mobile business over the expected customer service period of 3 years (2007: approximately 3 years; 2008: approximately 3 years). The related direct incremental costs of acquiring and activating mobile subscribers, including costs of SIM/USIM cards and commissions, are also capitalized and amortized over the same expected customer service period of 3 years.

We defer and amortize upfront customer connection and installation fees of the fixed-line business over the expected customer service period of 10 years (2007: approximately 10 years; 2008: approximately 10 years). The related direct incremental installation costs are deferred and amortized over the same expected customer service period of 10 years.

We only capitalize costs to the extent that they will generate future economic benefits. The excess of the direct incremental costs over the corresponding upfront non-refundable revenue, if any, are expensed to the statement of income immediately.

We estimate the expected customer service period based on the historical customer retention experience and after factoring in the expected level of future competition, the risk of technological or functional obsolescence to our services, technological innovation, and the expected changes in the regulatory and social environment. If our estimate of the expected customer service period changes as a result of increased competition, changes in telecommunications technology or other factors, the amount and timing of recognition of the deferred revenues and direct incremental costs may change for future periods.

The Acquisition of Target Business (2009 Business Combination)

Our acquisition of Target Business, or the 2009 Business Combination, was considered as a business combination of entities and business under common control, and has been accounted for using merger accounting under HKFRS, which is consistent with the predecessor values method under IFRS.

Pursuant to the agreement dated December 16, 2008, the 2009 Business Combination excluded the fixed-line telecommunications networks in 21 provinces in southern China, which are retained by Unicom New Horizon and are leased from Unicom New Horizon to CUCL effective from January 2009. To better reflect the economic substance that we have not taken on the risks and rewards associated with the property, plant and equipment and related non-current assets and liabilities relating to the fixed-line business in southern China, the consolidated balance sheet as of December 31, 2008, restated in accordance with the principle of merger accounting/predecessor values method, therefore includes only the relevant current assets of approximately RMB999 million and current liabilities of approximately RMB2,841 million of the fixed-line business in southern China but excludes the underlying property, plant and equipment and related non-current assets with net book value of approximately RMB31,350 million, the related long-term intercompany loans from Unicom Group for the financing of the construction of the fixed-line telecommunications networks in southern China of approximately RMB35,652 million and the related payables to network contractors and equipment suppliers of approximately RMB6,176 million. In addition, the consolidated statements of income for the years ended December 31, 2007 and 2008, again restated in accordance with the principle of merger accounting/predecessor values method, includes all the revenues and operating costs of the fixed-line business in Southern China, but excludes the depreciation and amortization charges of approximately RMB3,650 million and RMB3,886 million, respectively, and the finance costs associated with the long-term intercompany loans for the financing of the construction of the telecommunications networks in southern China of approximately RMB499 million and RMB846 million, respectively.

The 2009 Business Combination was completed on January 31, 2009 and therefore the consolidated statement of income for the year ended December 31, 2009 has excluded the depreciation and amortization charges of approximately RMB308 million of the property, plant and equipment relating to the fixed-line business in southern China and related non-current assets and the finance costs associated with the long-term intercompany loans for the financing of the construction of the fixed-line telecommunications networks in southern China of approximately

RMB26 million for the period from January 1, 2009 to January 31, 2009. After the completion of the 2009 Business Combination, we recorded leasing fees amounting to approximately RMB2.0 billion charged by Unicom New Horizon for the lease of the telecommunications networks in southern China for the year ended December 31, 2009 (2007 and 2008: nil).

Lease of Telecommunications Networks in Southern China

Pursuant to an agreement in relation to the lease of the fixed-line telecommunications networks in southern China entered between CUCL and Unicom Horizon, Unicom New Horizon has the legal ownership of the fixed-line telecommunications networks in southern China. We believe that we only bear the risks associated with the operation of the Fixed-line business in southern China during the relevant leasing periods and is free from any ownership risks of the telecommunications networks, and the risks and rewards of ownership of the leased assets rest substantially with the lessor. The initial term of the lease is two years effective from January 2009 and the lease is 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, taking into account, among others, the then prevailing market conditions in southern China. Moreover, in connection with the lease, Unicom New Horizon has granted to CUCL an option to purchase the telecommunications networks in southern China and the purchase price will be referenced to the then appraised value of the networks determined by an independent appraiser. Accordingly, we have accounted for the leasing of the aforementioned telecommunications networks as an operating lease.

PRC Tax Resident Enterprise

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after January 1, 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise (TRE). On April 22, 2009, the PRC State Administration of Taxation issued a notice regarding the determination of PRC TRE status and provided implementation guidance in withholding income tax for non-TRE enterprise shareholders. We performed an assessment and concluded that we meet the definition of PRC TRE. Therefore, as of December 31, 2008 and 2009, our subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to us and there has been no deferred tax liability accrued in our consolidated financial statements for the undistributed income of our subsidiaries in the PRC.

If the results of our assessment change, the amount of current income tax and deferred income tax will change in future periods.

Depreciation on Property, Plant and Equipment

Depreciation on our property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts up to residual values over the estimated useful lives of the assets. We review the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realization of economic benefits from property, plant and equipment. We estimate the useful lives of property, plant and equipment based on historical experience, taking into account anticipated technological changes. If there are significant changes from previously estimated useful lives, the amount of depreciation expenses may change.

Revaluation of Property, Plant and Equipment

Property, plant and equipment other than buildings and telecommunications equipment of the mobile business is carried at revalued amounts, being the fair value at the date of revaluation, less subsequent accumulated depreciation and accumulated impairment losses. Such equipment is revalued on a depreciated replacement cost or open market value approach, as appropriate, by an independent valuer on a regular basis.

During the intervals of independent revaluations, management performs the analysis and assessment annually to determine whether the fair values of property, plant and equipment carried at revalued amounts are materially different from their carrying amounts. If the revalued amounts differ significantly from the carrying

amounts of such property, plant and equipment in the future, the carrying amounts will be adjusted to the revalued amounts. The key assumptions made to determine the revalued amounts include the estimated replacement costs and the estimated useful lives of the property, plant and equipment. This will have an impact on our future results, since any subsequent decreases in valuation are first set off against increases on earlier valuations in respect of the same item and thereafter are charged as an expense to the statement of income and any subsequent increases are credited as income to the statement of income up to the amount previously charged to the statement of income and thereafter are credited to equity. In addition, the depreciation expenses in future periods will change as the carrying amounts of such property, plant and equipment change as a result of the revaluation.

Most of our property, plant and equipment which are carried at revalued amounts were revaluated as at December 31, 2006 by an independent valuation firm. We believe that the fair values of these revalued property, plant and equipment were not materially different from their carrying values as of December 31, 2009.

Impairment of Non-Current Assets

We test whether non-current assets have suffered from any impairment, in accordance with the accounting policy stated in Note 2.11 to the audited consolidated financial statements contained elsewhere in this annual report. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Management estimates value in use based on estimated discounted pre-tax future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is any significant change in management s assumptions, including discount rates or growth rates in the future cash flow projection, the estimated recoverable amounts of the non-current assets and our results would be significantly affected. Such impairment losses are recognized in the statement of income, except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case the impairment loss is treated as a revaluation decrease and charged to the revaluation reserve. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-current assets.

During 2008, we conducted the impairment test for the PHS service related assets, after considering the expected significant decline in revenue and profitability in 2009 and onwards. The impaired PHS business related assets were written down to their recoverable amount, which was determined based on their estimated value in use as there is no active market transaction for PHS business related assets . Estimated value in use was determined based on the present value of estimated future net cash flows expected to arise from the continuing use of the PHS business related assets. In estimating the future net cash flows, we made key assumptions and estimates on the appropriate discount rate of 15%, the period covered by the cash flow forecast of 3 years, the future loss of customers at an annual rate of declining ranging from 60% to 80%, and the decrease in average revenue per subscriber at an annual rate of decline at 15%.

These assumptions and estimates were made after considering the historical trends, the prevailing market trends and the physical conditions of the PHS business related assets. Changes in these assumptions and estimates could have a significant impact on the estimated recoverable amount. Based on above, we recognized RMB11,837 million of impairment loss on PHS services related assets at the end of 2008.

No impairment loss on property, plant and equipment was recognized for the years ended December 31, 2007 and 2009.

Provision for Doubtful Debts

Accounts receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. We evaluate specific accounts receivable where there are indications that the receivable may be doubtful or is not collectible. We record a provision based on our best estimates to reduce the receivable balance to the amount that is expected to be collected. For the remaining receivable balances as at each reporting date, we make a provision based on observable data indicating that there is a measurable decrease in the estimated future cash flows from the remaining balances. We make such estimates based on our past experience, historical collection patterns, subscribers creditworthiness and collection trends. For general subscribers, we make a full provision for receivables aged over 3 months, which is consistent with our credit policy with respect to the relevant subscribers.

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Our estimate described above is based on past experience, historical collection patterns, subscribers creditworthiness and collection trends. If circumstances change (e.g., due to factors including developments in our business and the external market environment), we may need to reevaluate our policies on doubtful debts, and make additional provisions in the future.

Income Tax and Deferred Taxation

We estimate our income tax provision and deferred taxation in accordance with the prevailing tax rules and regulations, taking into account any special approvals obtained from relevant tax authorities and any preferential tax treatment to which we are entitled in each location or jurisdiction in which we operate. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. We recognize liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, we have assessed the likelihood that the deferred tax assets could be recovered. Major deferred tax assets relate to impairment loss on property, plant and equipment, unrecognized revaluation surplus on property, plant and equipment under PRC tax regulations, and provision for doubtful debts. Due to the effects of these temporary differences on income tax, we have recorded deferred tax assets amounting to approximately RMB5,202 million as at December 31, 2009 (2008: approximately RMB5,334 million). Deferred tax assets are recognized based on our estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

We believe we have recorded adequate income tax provision and deferred taxes based on the prevailing tax rules and regulations and our current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to income tax and deferred taxation may be necessary which would impact our results or financial position.

Recently Issued International Financial Reporting Standards/Hong Kong Financial Reporting Standards

The IASB has issued a number of new and revised IFRSs and interpretations that are first effective for the current accounting period commencing January 1, 2009 or are available for early adoption. The equivalent new and revised HKFRSs and interpretations consequently issued by the HKICPA have the same effective date as those issued by the IASB and are in all material respects identical to the pronouncements issued by the IASB. There have been no other material changes to HKFRSs.

Up to the date of issue of our 2009 financial statements, the following new standards and amendments or revisions to existing standards have been issued but not yet effective for the annual accounting period ended December 31, 2009 and have not been adopted by us:

	Effective for annual accounting period beginning on or after
IFRS/HKFRS 2 (amendments), Group cash-settled share-based payment transactions	January 1, 2010
IFRS/HKFRS 3 (revised), Business combinations	July 1, 2009
IFRS/HKFRS 9 Financial instrument	January 1, 2013
IAS/HKAS 27 (revised), Consolidated and separate financial statements	July 1, 2009
IASB s improvements to IFRS/HKICPA s improvements to HKFRS:	
IFRS/HKFRS 3 Business combinations	July 1, 2010
IFRS/HKFRS 7 Financial instruments: disclosures	January 1, 2011
IAS/HKAS 7 (Amendment), Cash flow statements	January 1, 2010
IAS/HKAS 17 (Amendment), Leases	January 1, 2010
IAS/HKAS 34 Interim financial reporting	January 1, 2011
IAS/HKAS 36 (Amendment), Impairment of assets	January 1, 2010

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		Effective for annual accounting period beginning on or after
IAS/HKAS 38 (Amendment),	Intangible assets	July 1, 2009
IFRIC/(HK)IFRIC 13	Customer loyalty programmes	January 1, 2011

There are a number of new interpretations including IFRIC/HK (IFRIC) 17 Distribution of non-cash assets to owners , IFRIC/HK (IFRIC) 18 Transfer of assets from customers and IFRIC/HK(IFRIC) 19 Extinguishing financial liabilities with equity instruments as well as the amendment to IFRIC/HK(IFRIC) 14 Prepayments of a minimum funding requirement which are not listed above as the interpretations and the amendment are not relevant to our operation and consolidated financial statements. In addition, there are also a number of amendments to IFRS/HKFRS 5, Non-current assets held for sale and discontinued operations , IFRS /HKFRS 8, Operating segments , IAS/HKAS 1, Presentation of financial statements and IAS/HKAS 18, Revenue under IASB s improvements to IFRS/HKICPA s improvements to HKFRS which are not listed above as the amendments are also not relevant to our operation and consolidated financial statements.

We are currently in the process of making an assessment of the expected impact of these new standards, and amendments/revisions to existing standards in the period of initial application.

Operating Results

The 2008 and 2007 figures have been restated to reflect the effect of 2009 Business Combination which had been accounted for using merging accounting under HKFRS and predecessor values method under IFRS, which is consistent with HKFRS.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Revenue

2009 is the first year that we had a full-year operation following our merger with China Netcom. Despite various challenges, including global financial crisis, intensified telecommunications market competition, further downward adjustments in tariffs and decline of traditional fixed-line business, we actively developed full-service operation with a focus on mobile and fixed-line broadband businesses. Revenues from our continuing operations for 2009 amounted to RMB153.95 billion, a decrease of 3.7% from RMB159.79 billion for 2008. Excluding the effects of fixed-line upfront connection fees of RMB0.49 billion and RMB0.89 billion in 2009 and 2008 respectively, and interconnection revenue of RMB0.99 billion between our certain fixed-line business and the discontinued operations of CDMA business in 2008, our revenues from continuing operations for 2009 would amount to RMB153.46 billion, a decrease of 2.8% from RMB157.91 billion in 2008, of which our telecommunications service revenue would be RMB149.10 billion, down by 1.2% from 2008.

Mobile Business Revenue

Revenue from our mobile business was RMB71.99 billion in 2009, of which telecommunications service revenue accounted for RMB69.77 billion, up by 8.6% compared with 2008. Telecommunications service revenue from our mobile business, as a percentage of our total telecommunications service revenues (excluding fixed-line upfront connection fees of RMB0.49 billion and RMB0.89 billion in 2009 and 2008 respectively, and interconnection revenue of RMB0.99 billion between our certain fixed-line business and the discontinued operations of CDMA business in 2008), increased from 42.6% in 2008 to 46.8% in 2009. The growth in revenue from our mobile business is primarily due to the continued increase in the total number of our mobile subscribers, partially offset by the decrease in our subscribers ARPU.

Our total number of mobile subscribers was 147.59 million as of December 31, 2009, with a net addition of 14.22 million subscribers (including 2.74 million 3G subscribers) from the end of 2008. ARPU of our GSM mobile business was RMB41.2 in 2009, a decrease of 2.64% from RMB42.3 in 2008. ARPU of our 3G business was

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RMB141.7 in 2009.

The table below sets forth the revenue composition of our mobile business and each revenue item s respective share of total revenue for the years ended December 31, 2008 and 2009.

	2008		2009	
	RMB in millions	As % of total	RMB in millions	As % of total
Total revenue from mobile business	65,131	100.0	71,991	100.0
Telecommunications service revenue	64,240	98.6	69,769	97.0
Usage fees and monthly fees	40,462	62.1	42,297	58.8
Value-added service revenue	16,263	25.0	19,070	26.5
Interconnection revenue	6,775	10.4	8,220	11.4
Other service revenue	740	1.1	182	0.3
Other revenue	359	0.6	252	0.3
Sales of mobile telecommunications products	532	0.8	1,970	2.7

Usage Fees and Monthly Fees. As a result of increase of mobile subscribers, partially offset by the decrease in effective tariffs, usage fees and monthly fees for our mobile services were RMB42.30 billion in 2009, an increase of 4.5% from RMB40.46 billion in 2008.

Value-Added Service Revenue. In 2009, we continued to actively promote mobile value-added services and mobile data business, and improved the penetration of SMS and Cool Ringtone services. As a result, revenues from our mobile value-added services amounted to RMB19.07 billion in 2009, an increase of 17.3% from RMB16.26 billion in 2008 and as a percentage of total mobile revenue increased from 25.0% in 2008 to 26.5% in 2009. Of the total revenue from mobile value-added services, revenue from our SMS services decreased by 8.2% from RMB6.52 billion in 2008 to RMB5.98 billion in 2009 and revenue from Cool Ringtone services increased by 15.7% from RMB2.49 billion in 2008 to RMB2.88 billion in 2009.

Interconnection Revenue. Our interconnection revenue increased by 21.3% from RMB6.78 billion in 2008 to RMB8.22 billion in 2009, and represented 11.4% of total mobile revenue in 2009 as compared with 10.4% in 2008. This increase is primarily due to the increased total usage of our mobile services.

Sales of Telecommunications Products. Revenues from our sale of mobile telecommunications products increased 270.3% from RMB532 million in 2008 to RMB1,970 million in 2009, mainly due to our efforts in sales of 3G mobile handsets.

Fixed-Line Business Revenue

In 2009, as mobile substitution further intensified and the declining trend of the fixed-line voice business continued, we further adjusted our business structure and continued to focus on the development of fixed-line broadband services and innovative business services. Excluding fixed-line upfront connection fees of RMB0.49 billion and RMB0.89 billion in 2009 and 2008 respectively, and interconnection revenue of RMB0.99 billion between our certain fixed-line business and the discontinued operations of CDMA business in 2008, our revenue from fixed-line business would have decreased by 12.2% from RMB92.08 billion in 2008 to RMB80.86 billion in 2009, of which telecommunication service revenue would have decreased by 8.5% from RMB86.38 billion in 2008 to RMB79.06 billion in 2009. See D. Risk Factors We may further lose fixed-line and mobile subscribers and our doubtful debt ratios may increase, which may materially adversely affect our financial condition, results of operations and growth prospects under Item 3.

The table below sets forth the revenue composition of our fixed-line business and each revenue item s respective share of total revenue from our fixed-line business for the years ended December 31, 2008 and 2009.

	For the Year Ended December 31,			
	2008		2009	
	RMB in millions	As % of Total	RMB in millions	As % of Total

Total revenue from fixed-line business[1]	92,077	100.0	80,863	100.0

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	For the Year Ended December 31,			
	2008		2009	
	RMB in millions	As % of Total	RMB in millions	As % of Total
Telecommunications service revenue[1]	86,376	93.8	79,059	97.8
Usage fee and monthly fee[1]	40,497	44.0	34,369	42.5
Fixed-line broadband service revenue	20,962	22.8	23,898	29.6
Interconnection revenue	7,342	8.0	5,599	6.9
Value-added service revenue	7,074	7.7	5,238	6.5
Leased line service revenue	5,492	6.0	5,683	7.0
Managed data, other internet-related service revenue	2,662	2.8	2,466	3.0
Others	2,347	2.5	1,806	2.3
Information communication technology services and other revenue	4,339	4.7	1,611	2.0
Sales of fixed-line telecommunications products	1,362	1.5	193	0.2

(1) Excluding fixed-line upfront connection fees of RMB0.49 billion in 2009 and RMB0.89 billion in 2008 and interconnection revenue of RMB0.99 billion between certain fixed-line business and the discontinued operations of CDMA business in 2008. Fixed-line upfront connection fees represent the amortization of deferred upfront connection fees received from the customers before July 1, 2001. No upfront connection fee was received

from the customers since then. In addition, upon disposal of the CDMA business in 2008, interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business will not be recognized anymore. Therefore, we consider that analyses of our operating results excluding upfront connection fees and interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business are more relevant to the readers of this report.

Usage Fees and Monthly Fees. Usage fees include local usage fees charged for local telephone calls and VoIP long distance calls, long distance usage fees for domestic and international long distance calls originated by our fixed-line subscribers, users of our pre-paid phone cards and certain other customers. Monthly fees represent the fixed amount of service charges to our customers for using our fixed-line telephone services.

As a result of further implementation of the Calling-Party-Pays tariff policy for mobile services and continuing downward adjustments of tariffs for fixed-line services, the substitution effect of fixed-line local services by mobile services became more intense. We experienced significant decline in the number of our fixed-line local telephone subscribers and substantial decline in revenue. Our local telephone subscribers decreased in 2009 by 6.2% from 109.57 million at the end of 2008 to 102.82 million at the end of 2009. ARPU of the local telephone business decreased by 11.3% from 2008 to RMB31.4 in 2009. Total usage of local calls decreased by 8.9% from 2008 to 185.54 billion pulses in 2009 (excluding Internet dial-up usage) and total usage of long distance calls decreased by 18.3% from 41.11 billion minutes in 2008 to 33.58 billion minutes in 2009. As a result, revenues from our usage fees and monthly fees in 2009 decreased by 15.1% from RMB40.50 billion in 2008 to RMB34.37 billion in 2009.

Fixed-Line Broadband Service Revenue. Revenue from our fixed-line broadband services consists of revenue generated from DSL, LAN, and broadband-related value-added services. In 2009, our fixed-line broadband business continued to maintain a rapid growth as a result of our efforts in improving broadband access speed, enriching application contents and implementing diversified sales strategies. Our fixed-line broadband subscribers increased by 28.2% from 2008 to 38.55 million in 2009. ARPU of our fixed-line broadband business decreased from RMB63.6 in

2008 to RMB57.2 in 2009, mainly because: (i) a significant portion of our new broadband subscribers consist of users from rural areas in China who tend to have limited usage of broadband services, and (ii) the general decreasing tariff resulted from intensified market competition. However, revenues from our fixed-line broadband service increased significantly by 14.0% from 2008 to RMB23.90 billion in 2009, and as a percentage of the fixed-line service revenue, increased from 22.8% in 2008 to 29.6% in 2009. Fixed-line broadband service has become the main factor in counteracting the effect of mobile substitution in the decline of our fixed-line voice business.

Interconnection Revenue. Revenue from our interconnection services consists of interconnection fees charged to other domestic telecommunications operators, principally China Mobile and China Telecom, for both local and long distance calls. Revenue from our interconnection services decreased by 23.7% from RMB7.34 billion in 2008 to RMB5.60 billion in 2009. The decrease in interconnection revenue was mainly due to a decrease in voice traffic from other telecommunications operators as a result of the mobile substitution effect.

Value-Added Service Revenue. Revenue from our value-added services consists of fees that we charge our

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customers for the provision of caller identification, personalized ring, telephone information services, video- and tele-conferencing and other value-added services. Revenue from our value-added services decreased by 26.0% from RMB7.07 billion in 2008 to RMB5.24 billion in 2009, mainly due to the decrease in usage of our caller identification and PHS SMS services as a result of the significant reduction of our fixed-line telephone subscribers, including PHS subscribers.

Leased Line Service Revenue. Revenue from our leased line services consists of fees that we receive from our government, corporate and carrier customers for leasing circuit capacity to them, including the lease of digital circuits, digital trunk lines and optic fibers. Revenue from our leased line services increased by 3.5% from RMB5.49 billion in 2008 to RMB5.68 billion in 2009, mainly due to the increased demand of leased line services by our government and SME customers.

Managed Data Service and Other Internet-Related Service Revenue. Revenue from our managed data services consists of fees that we charge for our DDN, frame relay, ATM, MPLS-VPN and X.25 services. Revenue from our managed data services increased by 3.7% from RMB1.41 billion in 2008 to RMB1.46 billion in 2009. Revenue from other Internet-related services consists of revenue from the provision of Internet dial-up services (other than communication fees) and dedicated Internet access services. Revenue from other Internet-related services decreased by 19.8% from RMB1.25 billion in 2008 to RMB1.01 billion in 2009.

Others. Other fixed-line related revenue mainly consists of miscellaneous revenue items. Other fixed-line related revenue decreased by 23.1% from RMB2.35 billion in 2008 to RMB1.81 billion in 2009.

Information communication technology services and other revenue. Information communication technology services and other revenue decreased by 62.9% from RMB4.34 billion in 2008 to RMB1.61 billion in 2009. This decrease was mainly due to the decrease in our ICT service revenue as a result of the change in our ICT business strategy which is changed to focus on the provision of technology/services and reducing hardware sales. In 2009, we reduced sales of third-party products in connection with the provision of our ICT services, which, despite reducing our direct revenue, helped enhance the profit margin, of our ICT services.

Sales of Telecommunications Products. Revenue from our sales of fixed-line telecommunications products decreased by 85.8% from RMB1.36 billion in 2008 to RMB0.19 billion in 2009, mainly due to the decrease in sales of computers bundled with our fixed-line broadband services in 2008.

Costs, Expenses and Others

Total costs, expenses and others for our continuing operations in 2009 were RMB141.67 billion, representing a decrease of 5.6% from RMB150.14 billion in 2008. Excluding the effects of the non-comparable items, including leasing fee for telecommunications networks in southern China in 2009, realized gains on changes in fair value of derivative financial instrument in 2009, impairment loss on property, plant and equipment in 2008, gain from the non-monetary assets exchange, our total costs, expenses and others for our continuing operations in 2009 would have been RMB140.95 billion, representing an increase of 1.0% from RMB139.61 billion in 2008.

The table below sets forth the major items of costs, expenses and others from continuing operations and their respective percentage of the total telecommunications services revenue from continuing operations for the years 2008 and 2009:

	For the Year Ended December 31,			
	2008		2009	
	RMB in millions	% of Total	RMB in millions	% of Total
Continuing Operations				
Total telecommunications services revenue[1]	150,953	100.0	149,103	100.0
Costs, expenses and others	150,139	99.4	141,668	95.0
Interconnection charges	13,038	8.6	12,955	8.7
Depreciation and amortization	47,961	31.8	47,587	31.9
Networks, operations and support expenses	18,736	12.4	21,728	14.6
			2,000	1.3

Leasing fee for telecommunications networks in southern China

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	For the Year Ended December 31,			
	2008		2009	
	RMB in millions	% of Total	RMB in millions	% of Total
Employee benefit expenses	20,758	13.8	21,931	14.7
Selling and marketing	19,614	13.0	21,020	14.1
Cost in relation to information communication technology services	3,010	2.0	839	0.6
General, administrative and other expenses	12,968	8.6	12,175	8.2
Cost of telecommunications products sold[1]	2,156	1.4	2,689	1.8
Finance costs, net of interest income	2,158	1.4	945	0.6
Impairment loss on property, plant and equipment	11,837	7.8		
Realized gains on changes in fair value of derivative financial instrument			(1,239)	(0.8)
Other income-net	(2,097)	(1.4)	(962)	(0.7)

(1) Excluding fixed-line upfront connection fees of RMB0.49 billion in 2009 and RMB0.89 billion in 2008 and interconnection revenue of RMB0.99 billion between certain fixed-line business and the discontinued operations of CDMA business in 2008.

Interconnection Charges. Interconnection charges were RMB12.96 billion in 2009, down by 0.6% from 2008 and as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees and interconnection revenue between our certain fixed-line business and the discontinued operations of CDMA business in 2008) would remain stable in 2009.

Depreciation and Amortization. In the fourth quarter of 2009, depreciation and amortization charges of 3G network assets increased by RMB0.65 billion. As a result of the provision of the impairment loss on the PHS service-related equipment in 2008 and partly due to the full depreciation of certain property, plant and equipment in 2008, depreciation and amortization expenses amounted to RMB47.59 billion in 2009, down by 0.8% from 2008, and as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business in 2008), slightly increased from 31.8% in 2008 to 31.9% in 2009.

Networks, Operations and Support Expenses. Due to various factors, including the launch of 3G services, the expansion of GSM networks facilities and base stations and the increases in utilities charges and repair and maintenance expenses, we incurred networks, operations and support expenses of RMB21.73 billion in 2009, up by

16.0% from 2008. Networks, operations and support expenses, as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business in 2008), increased by 2.2% from 2008 to 14.6% in 2009. As a result of network resources sharing and utilization of synergies, the related line leasing fees was RMB1.19 billion, down by 22.7% from 2008.

Leasing Fee for Telecommunications Networks in Southern China. We completed an acquisition of fixed-line business of 21 provinces in southern China in January 2009. As the underlying telecommunications networks for such business are retained by Unicom Group, we operated those networks through an operating lease from Unicom Group from January 2009. As a result, we incurred a lease fee of RMB2.00 billion for leasing those telecommunications networks in 2009.

Employee Benefit Expenses. Due to various factors, such as increased employee insurance premium expenses and housing fund resulting from new regulations and generally improved social average wages in China, our employee benefit expenses increased by 5.7% from 2008 to RMB21.93 billion in 2009, and as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business in 2008), increased from 13.8% in 2008 to 14.7% in 2009.

Selling and Marketing Expenses. Since the commercial launch of 3G business on October 1, 2009, we have

been engaged in active advertising campaigns and marketing promotion activities, which resulted in a total selling and marketing expenses for the fourth quarter of 2009 of RMB1.17 billion. In 2009, our total selling and marketing expenses reached RMB21.02 billion, up by 7.2% from 2008, and as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business in 2008), increased from 13.0% in 2008 to 14.1% in 2009.

Cost in Relation to Information Communication Technology Services. We adjusted the development strategy in relation to our ICT business by focusing on the provision of technology services and reducing hardware sales. As a result, cost in relation to information communication technology in 2009 was RMB0.84 billion, down by 72.1% from last year. Correspondingly, revenue from ICT services in 2009 was RMB1.04 billion, down by 71.9% from last year.

General, Administrative and Other Expenses. As we continued to benefit from the post-merger synergies and to closely control the growth of general and administrative expenses, our general, administrative and other expenses was RMB12.18 billion in 2009, down by 6.1% compared with last year, and as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business in 2008), slightly decreased from 8.6% in 2008 to 8.2% in 2009.

Cost of Telecommunications Products Sold. As a result of the increase in the number of mobile handsets sold after the commercial launch of 3G business, the cost of telecommunications products sold amount to RMB2.69 billion, up by 24.7% from 2008. Correspondingly, revenue from sale of telecommunications products in 2009 amounted to RMB2.16 billion, up by 13.9% from 2008.

Finance Costs, Net of Interest Income. In 2009, we further improved our debt structure by enhancing the centralization of fund management and fund operation and obtained low-cost financing. In addition, as a result of the reduction of base lending rate and the increase in the amount of capitalized interest related to the construction we undertook in 2009, our finance costs, net of interest income, decreased by 56.2% from RMB2.16 billion in 2008 to RMB0.95 billion in 2009.

Impairment Loss on the PHS Business-Related Assets

Upon the completion of our merger with China Netcom, we reconsidered our strategy relating to the PHS business. As we expected that the economic performance of the PHS business would deteriorate significantly, we prepared an updated analysis and forecast accordingly to determine if there had been an impairment of assets. After considering the expected significant decline in revenue and profitability in 2009 and onwards, we conducted an impairment test for the PHS business related assets. See D. Risk Factors Risks Relating to Our Business If we fail to achieve a smooth discontinuation of PHS services or retain our PHS subscribers to use our other telecommunications services, our financial condition and results of operations may be adversely affected. under Item 3. Accordingly, we recognized an impairment loss on PHS business related equipment of approximately RMB11.84 billion for the year ended December 31, 2008.

As of December 31, 2009, we updated the impairment analysis for the PHS business related equipment and concluded that there was no need for additional recognition or reversal of the previously recognized impairment loss.

Realised Gain on Changes in Fair Value of Derivative Financial Instrument. In order to strengthen our cooperation with Telefónica, we entered into a subscription agreement with Telefónica on September 6, 2009, pursuant to which each party completed the mutual investment of an equivalent of USD1 billion in each other through an acquisition of the other party s shares on October 21, 2009. At the inception of the subscription agreement on September 6, 2009, our agreement to undertake the above mutual investment with Telefónica was accounted for as a derivative financial instrument in accordance with IAS/HKAS 39 Financial instrument: Recognition and measurement , as it represents a forward contract for the purchase of shares by Telefónica and us in each other at predetermined fixed prices and is denominated in a foreign currency. The derivative financial instrument was derecognized upon completion of the transaction on October 21, 2009. The changes in the fair value of the derivative financial instrument during the period from September 6, 2009 to October 21, 2009 resulted in a fair value gain of approximately RMB1.24 billion, which has been recorded in the consolidated statement of income for the year ended

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December 31, 2009.

Other Income-Net. In 2009, other income-net was RMB0.96 billion, down by 54.1% from 2008, of which, gain on non-monetary assets exchanged in connection with our replacement of copper cables in some of our fixed-line network regions with optical fibers was RMB0.04 billion, down by RMB1.27 billion from 2008.

Income Before Income Tax

In 2009, our income before income tax was RMB12.28 billion, up by 27.2% from 2008, mainly due to our provision for impairment loss on PHS business related equipment in 2008.

In order to ensure the comparability of income before tax and income for the year, we exclude the following non-comparable factors that are reflected in the figures of 2008 and 2009 for additional analysis purpose:

(1) deferred fixed-line upfront connection fees of RMB0.49 billion for 2009 and RMB0.89 billion for 2008;

(2) gain of RMB0.04 billion from the nonmonetary assets exchange for 2009 and RMB1.31 billion for 2008;

(3) the lease fee of RMB2.00 billion for the telecommunications networks of 21 provinces in southern China for 2009;

(4) realized gain of RMB1.24 billion on changes in fair value of derivative financial instrument in 2009; and

(5) impairment loss of RMB11.84 billion on PHS services related equipment in 2008.

After excluding the above factors, our income from continuing operations before income tax would be RMB12.51 billion, down by 35.2% from 2008. Such decrease is mainly due to two reasons: (i) the decline of fixed-line voice business, which has been a consistent trend in recent years due to further intensified mobile substitution and contraction of PHS industry; and (ii) the initial development stage of our 3G business, during which we incurred significant costs in connection with 3G network operations and business development increased in a much more rapid rate than the increase of our revenues from the 3G business.

Income Tax

Our income tax for continuing operations was RMB2.72 billion in 2009, up by 48.9% from 2008, and our effective tax rate in 2009 was 22.2%. After excluding the factors discussed under Income Before Income Tax above, our effective tax rate in 2008 and 2009 would be 23.1% and 23.2%, respectively.

Net Income for the Year

In 2009, our net income from continuing operations reached RMB9.56 billion, up by 22.1% from 2008. Our basic earnings per share was RMB0.402 in 2009. After excluding the factors discussed under the subsection Income Before Income Tax above, our net income from continuing operations would be RMB9.61 billion, down by 35.2% from 2008.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Revenue

In 2008, we experienced various challenges, including changes in the economic environment, a further intensified trend of mobile substitution in our fixed-line business and downward adjustments in mobile roaming tariffs, as well as the telecommunications industry restructuring. By improving customer value, promoting bundling of fixed-line and mobile services and the application of value-added services, we maintained stable revenue from continuing operations. Revenues from continuing operations for 2008 amounted to RMB159.79 billion, a decrease

from RMB159.94 billion for 2007. Excluding fixed-line upfront connection fees of RMB0.89 billion and RMB1.52 billion in 2008 and 2007, respectively, and interconnection revenue of RMB0.99 billion and RMB1.00 billion between our certain fixed-line business and the discontinued operations of CDMA business in 2008 and 2007 respectively, our revenues from continuing operations for 2008 would amount to RMB157.91 billion, representing a increase of 0.3% from RMB157.43 billion in 2007, of which our telecommunications service revenue was RMB150.95 billion, representing a decrease of 0.2% from RMB151.24 billion in 2007, and revenue from sale of telecommunications products was RMB1.90 billion, representing an increase of 91.1% from RMB0.99 billion in 2007.

Mobile Business Revenue

Revenue from our mobile business grew in 2008. Revenue from our mobile business increased by 4.3% from RMB62.44 billion in 2007 to RMB65.13 billion in 2008. Telecommunication service revenue from our mobile business, as a percentage of our total telecommunication service revenues (excluding fixed-line upfront connection fees of RMB0.89 billion and RMB1.52 billion in 2008 and 2007, respectively, and interconnection revenue of RMB0.99 billion and RMB1.00 billion between our certain fixed-line business and the discontinued operations of CDMA business in 2008 and 2007 respectively), from continuing operations, increased from 41.2% in 2007 to 42.6% in 2008. The growth in revenue from our mobile business is primarily due to the continued increase in the total number of our total mobile subscribers, partially offset by the decrease in our subscribers ARPU.

Our total number of mobile subscribers was 133.37 million as of December 31, 2008, an increase of 10.6% from 120.56 million as of December 31, 2007. Total usage of our mobile services was 376.67 billion minutes, an increase of 10.3% from 2007. ARPU from our mobile business was RMB42.3 in 2008, a decrease of 7.4% from RMB45.7 in 2007. This decrease was primarily due to (i) our decreasing effective tariffs, which mainly resulted from pricing competition with other telecommunication operators in China and downward adjustments on tariffs by the PRC Government (which may continue in the future); and (ii) the fact that a significant portion of our incremental market consists of users from rural areas in China, many of whom tend to have less usage of telecommunications services (mobile services, in particular) and are more cost-sensitive than users from urban areas. The average MOU decreased by 1.3%, from 249.7 minutes in 2007 to 246.4 minutes in 2008, primarily due to the fact that a significant portion of our incremental market consists of users from rural areas in China, many of whom tend to have less usage of telecommunications services than urban users. See D. Risk Factors We may further lose subscribers in particular, fixed-line subscribers, which may materially adversely affect our financial condition, results of operations and growth prospects under Item 3.

The table below sets forth the revenue composition of our mobile business and each revenue item s respective share of total mobile revenue for the years ended December 31, 2007 and 2008.

	2007		2008	
	RMB in millions	As % of total	RMB in millions	As % of total
Total revenue from mobile business	62,437	100.0	65,131	100.0
Telecommunications service revenue	62,236	99.7	64,240	98.6
Usage fees and monthly fees	42,077	67.4	40,462	62.1
Value-added service revenue	13,528	21.7	16,263	25.0
Interconnection revenue	5,767	9.2	6,775	10.4
Other services revenue	864	1.4	740	1.1
Other revenue	187	0.3	359	0.6
Sales of mobile telecommunications products	14	0.0	532	0.8

Usage Fees and Monthly Fees. As a result of our tariff adjustments in response to intense market competition and the MIIT s roaming charges adjustment in 2008, usage fees and monthly fees for our mobile services were RMB40.46 billion in 2008, a decrease of 3.8% from RMB42.08 billion in 2007, and as a percentage of our total mobile revenue, decreased from 67.4% in 2007 to 62.1% in 2008.

Value-Added Service Revenue. As a result of our promotion of the value-added business, revenues from our mobile value-added services amounted to RMB16.26 billion in 2008, an increase of 20.2% from RMB13.53 billion in 2007

and as a percentage of total mobile revenue increased from 21.7% in 2007 to 25.0% in 2008. Of the total revenue

from value-added mobile services, revenue from our SMS services increased by 8.8% from RMB5.99 billion in 2007 to RMB6.52 billion in 2008; revenue from Cool Ringtone services increased by 34.6% from RMB1.85 billion in 2007 to RMB 2.49 billion in 2008; and revenue from caller identification services increased by 15.0% from RMB3.26 billion in 2007 to RMB3.75 billion in 2008. In addition, as we further expanded the coverage of our GPRS services and improved the quality of our GPRS network in 2008, our GPRS services grew significantly in 2008, and revenue from our GPRS services increased by 705.8% from RMB155 million in 2007 to RMB1,249 million in 2008 and its share of total mobile service revenue increased from 0.2% in 2007 to 1.9% in 2008.

Interconnection Revenue. Our interconnection revenue increased by 17.5% from RMB5.77 billion in 2007 to RMB6.78 billion in 2008, and represented 10.4% of total mobile revenue in 2008 as compared with 9.2% in 2007. This increase is primarily due to the increased total usage of our mobile services.

Sales of Telecommunications Products. Revenues from our sale of mobile telecommunications products increased 3,700% from RMB14 million in 2007 to RMB532 million in 2008, mainly due to the establishment of our subsidiary, Unicom Vsens Telecommunications Company Limited, in August 2008, which was principally engaged in sales of mobile handsets and telecommunications equipment and provision of technical services.

Fixed-Line Business Revenue

In 2008, as mobile substitution further intensified and the declining trend of the fixed-line voice business continued, we further adjusted our business structure and continued to focus on the development of fixed-line broadband services. Excluding fixed-line upfront connection fees of RMB0.89 billion and RMB1.52 billion in 2008 and 2007, respectively, and interconnection revenue of RMB0.99 billion and RMB1.00 billion between our certain fixed-line business and the discontinued operations of CDMA business in 2008 and 2007 respectively, our revenue from fixed-line business would have decreased by 2.4% from RMB94.34 billion in 2007 to RMB92.08 billion in 2008, of which telecommunications service revenue would have decreased by 2.5% from RMB88.58 billion in 2007 to RMB86.38 billion in 2008. See D. Risk Factors We may further lose subscribers in particular, fixed-line subscribers, which may materially adversely affect our financial condition, results of operations and growth prospects under Item 3.

The table below sets forth the revenue composition of our fixed-line business and each revenue item s respective share of total revenue from our fixed-line business for the years ended December 31, 2007 and 2008.

	For the Year Ended December 31,			
	2007		2008	
	RMB in millions	As % of Total	RMB in millions	As % of Total
Total revenue from fixed-line business[(1)]	94,341	100.0	92,077	100.0
Telecommunications service revenue[(1)]	88,579	93.9	86,376	93.8
Usage fee and monthly fee[(1)]	47,908	50.8	40,497	44.0
Fixed-line broadband service revenue	16,450	17.4	20,962	22.8
Interconnection revenue	7,799	8.3	7,342	8.0
Value-added service revenue	7,084	7.5	7,074	7.7
Leased line service revenue	4,433	4.7	5,492	6.0
Managed data, other internet-related service revenue	2,363	2.5	2,662	2.8
Others	2,542	2.7	2,347	2.5
Information communication technology services and other revenue	4,782	5.1	4,339	4.7
Sales of fixed-line telecommunications products	980	1.0	1,362	1.5

(1) Excluding (i)fixed-line upfront connection fees of

RMB0.89 billion and RMB1.52 billion in 2008 and 2007 respectively; (ii) interconnection revenue of RMB0.99 billion and RMB1.00 billion between certain fixed-line business and the discontinued operations of CDMA business in 2008 and 2007 respectively. Fixed-line upfront connection fees represent the amortization of deferred upfront connection fees received from the customers before July 1, 2001. No upfront connection fee was received from the customers since then. In addition, upon disposal of the CDMA business in 2008, interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business will not be recognized anymore. Therefore, we consider that analyses of our operating results excluding upfront connection fees and interconnection

revenue between certain fixed-line business and the discontinued operations of CDMA business are more relevant to the readers of this report.

Usage Fees and Monthly Fees. As a result of continuing mobile substitution, we experienced significant decline in the number of our fixed-line local telephone subscribers and usage of fixed-line services. As a result, revenues from our usage fees and monthly fees in 2008 decreased by 15.5% from RMB47.91 billion in 2007 to RMB40.50 billion in 2008.

Fixed-Line Broadband Service Revenue. In 2008, we continued to focus on developing our fixed-line broadband services. Revenues from our fixed-line broadband service increased significantly by 27.4% from RMB16.45 billion in 2007 to RMB20.96 billion in 2008, and as a percentage of the fixed-line revenue, increased from 17.4% in 2007 to 22.8% in 2008. Fixed-line broadband service has become the main factor in counteracting the effect of mobile substitution in the decline of our fixed-line voice business.

Interconnection Revenue. Revenue from our interconnection services decreased by 5.9% from RMB7.80 billion in 2007 to RMB7.34 billion in 2008. The decrease in interconnection revenue was mainly due to a decrease in voice traffic from other telecommunications operators as a result of the mobile substitution effect.

Value-Added Service Revenue. Revenue from our value-added services decreased slightly by 0.1% from RMB7.08 billion in 2007 to RMB7.07 billion in 2008.

Leased Line Service Revenue. Revenue from our leased line services increased by 23.9% from RMB4.43 billion in 2007 to RMB5.49 billion in 2008, mainly due to the increased demand of leased line services by our government and SME customers.

Managed Data Service and Other Internet-Related Service Revenue. Revenue from our managed data services and other Internet-related services increased by 12.7% from RMB 2.36 billion in 2007 to RMB2.66 billion in 2008. The increase was primarily due to the growth in demand by SMEs on dedicated Internet access services, partly offset by decrease in usage of traditional DDN and frame relay services as a result of the substitution by new ways of access and our generally decreased effective tariffs.

Others. Other fixed-line related revenue mainly consists of miscellaneous revenue items. Other fixed-line related revenue decreased by 7.7% from RMB2.54 billion in 2007 to RMB2.35 billion in 2008.

Information communication technology services and other revenue. Information communication technology services and other revenue decreased by 9.3% from RMB4.78 billion in 2007 to RMB4.34 billion in 2008. This decrease was mainly due to the decrease in our ICT service revenue as a result of the change in our ICT business strategy. In 2008, we reduced sales of third-party products in connection with the provision of our ICT services, which, despite reducing our direct revenue, helped enhance the profit margin, of our ICT services.

Sales of Telecommunications Products. Revenue from our sales of fixed-line telecommunications products increased by 39.0% from RMB0.98 billion in 2007 to RMB1.36 billion in 2008, mainly due to the increase in sales of computers bundled with our fixed-line broadband services in 2008.

Costs, Expenses and Others

In 2008, we experienced upward pressures on costs and expenses brought by various challenges, including changes in the macroeconomic environment, severe natural disasters and our merger and reorganization activities. While stabilizing our operations, we took measures, such as controlling our out-of-pocket expenses, to control our costs and expenses. Total costs, expenses and others for our continuing operations in 2008 were RMB150.14 billion, representing an increase of 13.9% from RMB131.86 billion in 2007. Excluding the effects of the non-comparable items, including impairment loss on PHS business-related assets in 2008, gain from the non-monetary assets exchange, tax refund on reinvestment in subsidiaries and realized loss on changes in fair value of derivative component of the convertible bonds in 2007, our total costs and expenses for our continuing operations in 2008 would have been RMB139.61 billion, representing an increase of 2.9% from RMB135.68 billion in 2007. The 2.9% increase was principally attributable to increases in networks, operations and support expenses, employee benefit expenses and interconnection charges and costs of telecommunications products sold, partially offset by decreases in finance costs, net of interest income.

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The table below sets forth the major items of costs, expenses and others from continuing operations and their respective percentage of the total revenue from continuing operations for the years 2007 and 2008:

	For the Year Ended December 31,			
	2007		2008	
	RMB in millions	% of Total	RMB in millions	% of Total
Continuing Operations				
Total telecommunications services revenue [1]	151,235	100.0	150,953	100.0
Costs, expenses and others	131,856	87.1	150,139	99.4
Interconnection charges	12,198	8.1	13,038	8.6
Depreciation and amortization	47,625	31.5	47,961	31.8
Networks, operations and support expenses	17,877	11.8	18,736	12.4
Employee benefit expenses	19,398	12.8	20,758	13.8
Selling and marketing	19,660	13.0	19,614	13.0
Cost in relation to information communication technology services	3,808	2.5	3,010	2.0
General, administrative and other expenses	11,776	7.8	12,968	8.6
Cost of telecommunications products sold	1,109	0.7	2,156	1.4
Finance costs, net of interest income	2,936	1.9	2,158	1.4
Impairment loss on property, plant and equipment			11,837	7.8
Realized loss on changes in fair value of derivative component of convertible bonds	569	0.4		
Other income-net	(5,100)	(3.4)	(2,097)	(1.4)

(1) Excluding (i) fixed-line upfront connection fee of RMB0.89 billion and RMB1.52 billion in 2008 and 2007, respectively, and (ii) interconnection revenue between certain fixed-line business and the discontinued operations of CDMA business of RMB0.99 billion and RMB1.00 billion in 2008 and 2007, respectively.

Interconnection Charges. Interconnection charges increased by 6.9% from RMB12.20 billion in 2007 to RMB13.04 billion in 2008, primarily due to an increase in mobile interconnection traffic volume resulting from the

increase of total usage of mobile services. The increase in interconnection charges is consistent with the increase of interconnection revenues. Interconnection charges as a percentage of total telecommunications service revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and CDMA business) also increased from 8.1% in 2007 to 8.6% in 2008.

Depreciation and Amortization. Depreciation and amortization expenses amounted to RMB47.96 billion in 2008, up by 0.7% from RMB47.63 billion in 2007, and as a percentage of our total telecommunications service revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and CDMA business), slightly increased from 31.5% in 2007 to 31.8% in 2008.

Networks, Operations and Support Expenses. Due to various factors, including large-scale expansion of network facilities and base stations and increases in utilities charges and repair and maintenance expenses (mainly resulting from natural disasters and additional network maintenance work during the Beijing Olympics Games period), we incurred networks, operations and support expenses of RMB18.74 billion in 2008, up by 4.8% from RMB17.88 billion in 2007. Networks, operations and support expenses as a percentage of our total telecommunications services revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and CDMA business), was 12.4% in 2008, a slight increase from 11.8% in 2007. After our merger with China Netcom, we were able to share the network resources from China Netcom, which resulted in reduced costs for leasing telecommunications networks. Our line leasing fee was RMB1.54 billion in 2008, down by 3.9% from 2007.

Employee Benefit Expenses. As a result of our compliance with the new Labor Contract Law in China in 2008 and generally improved social average wages in China, our employee insurance premium expenses increased. In addition, we also incurred additional employee benefits-related costs for maintaining the continuity of our personnel during our integration with China Netcom. Our employee benefit expenses increased by 7.0% from RMB19.40 billion

in 2007 to RMB20.76 billion in 2008, and as a percentage of our total telecommunications services revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and CDMA business), increased from 12.8% in 2007 to 13.8% in 2008.

Selling and Marketing Expenses. In 2008, we continued to strengthen our control on selling and marketing costs and ensure that agency fees paid to our sales agents are strictly in proportion to revenue contribution by the subscribers brought by such agents. In addition, during our restructuring and integration period in 2008, we consolidated our self-owned distribution channels and our sales agent resources to achieve increased synergies. As a result, we enhanced the overall effectiveness of our selling and marketing activities and our selling and marketing expenses decreased by 0.2% from RMB19.66 billion in 2007 to RMB19.61 billion in 2008. As a percentage of our total telecommunications services revenue (excluding fixed-line upfront connection fees and interconnection revenue between certain fixed-line business and CDMA business), our selling and marketing expenses were 13.0% in 2008, the same level as in 2007.

General, Administrative and Other Expenses. As the loss of our fixed-line subscribers increased in 2008, the delinquencies associated with such loss also increased. As a result, we increased our provision for doubtful debts in 2008 and our general, administrative and other expenses increased by 10.1% from RMB11.78 billion in 2007 to RMB12.97 billion in 2008, and as a percentage of total telecommunications services revenue increased from 7.8% in 2007 to 8.6% in 2008.

Cost of Telecommunications Products Sold. As a result of a 91.0% increase in revenue from the sale of telecommunications products, we incurred RMB2.16 billion in cost of telecommunications products sold, up by 94.4% from RMB1.11 billion in 2007.

Finance Costs, Net of Interest Income. In 2008, we further strengthened and improved our capital structure by enhancing the centralization of fund management and fund operation. In addition, we made early repayments of interest-bearing debts using the proceeds received from the disposal of the CDMA business. As a result, our finance costs, net of interest income, decreased by 26.5% from RMB2.94 billion in 2007 to RMB2.16 billion in 2008.

Impairment Loss on the PHS Business-Related Assets

Upon the completion of our merger with China Netcom, we reconsidered our strategy relating to the PHS business. As we expected that the economic performance of the PHS business would deteriorate significantly, we prepared an updated analysis and forecast accordingly to determine if there had been an impairment of assets. After considering the expected significant decline in revenue and profitability in 2009 and onwards, we conducted an impairment test for the PHS business related assets. See D. Risk Factors Risks Relating to Our Business If we fail to achieve a smooth discontinuation of PHS services or retain our PHS subscribers to use our other telecommunications services, our financial condition and results of operations may be adversely affected. under Item 3. The impaired PHS business related assets were written down to their recoverable value, which was determined to be based on their estimated value in use. Value in use was determined based on the present value of estimated future net cash flows expected to arise from the continuing use of the PHS business related assets. In estimating the future net cash flows, we made key assumptions and estimates on the appropriate discount rate adopted, the period covered by the cash flow forecast, the future loss of customers and the expected average revenue per subscriber.

These assumptions and estimates were made after considering the historical trends, the prevailing market trends and the physical conditions of the PHS business related equipment. Based on the above, we recognized an impairment loss on PHS business related assets of approximately RMB11.84 billion for the year ended 31 December 2008 and nil for the year ended December 31, 2007.

Other Income-Net. In 2008, other income-net was RMB2.10 billion, mainly from the net gain on non-monetary asset exchange in connection with our replacement of copper cables in some of our fixed-line network regions with optical fibers. In 2007, we reinvested the undistributed profits of our certain PRC subsidiaries into these subsidiaries and were granted a refund on a portion of the taxes previously paid by these subsidiaries amounting to approximately RMB4.00 billion. We recognized this tax refund as other income for 2007. Excluding the effect of RMB4.00 billion tax refund, other income-net for 2008 would be up by 90.8% from 2007.

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Income from Continuing Operations before Income Tax

In 2008, our income from continuing operations before income tax was RMB9.65 billion, down by 65.6% from RMB28.08 billion in 2007.

In order to ensure the comparability of income before tax and income for the year, we exclude the following non-comparable factors that are reflected in the figures of 2007 and 2008 for additional analysis purposes:

(1) deferred fixed-line upfront connection fees of RMB0.89 billion for 2008 and RMB1.52 billion for 2007;

(2) gain of RMB1.31 billion from the non-monetary assets exchange for 2008 and RMB0.39 billion for 2007;

(3) tax refund on reinvestment in subsidiaries of RMB4.00 billion in 2007;

(4) realized loss on changes in fair value of derivative component of the convertible bonds of RMB0.57 billion in 2007; and

(5) impairment loss of RMB11.84 billion on PHS services related equipment in 2008.

After excluding the above factors, our income from continuing operations before income tax would be RMB19.30 billion in 2008, down by 15.2% from 2007.

In 2008, our income before income tax from the discontinued CDMA services was RMB1.91 billion.

Income Tax

Our income tax for continuing operations was RMB1.83 billion in 2008, down by 74.5% from RMB7.18 billion in 2007. Our effective tax rate for continuing operations in 2007 and 2008 was 25.5% and 18.9%, respectively. After excluding the factors discussed under Income From Continuing Operations Before Income Tax above, our effective tax rates in 2007 and 2008 would be 26.0% and 23.1%, respectively.

The decrease in our income tax was mainly due to our reduced profit before income tax. In addition, due to a downward adjustment of the enterprise income tax from 33% to 25% pursuant to the PRC Enterprise Income Tax Law which became effective on January 1, 2008, our income tax for 2008 also decreased.

Income from Continuing Operations

Our income from continuing operations was RMB7.83 billion in 2008, as compared to RMB20.91 billion in 2007. Excluding the factors discussed under Income From Continuing Operations Before Income Tax above, down by 11.9% from RMB16.83 billion in 2007.

Income from Discontinued Operations

Our income from discontinued operations was RMB1.44 billion in 2008. We also had a gain on the disposal of discontinued operations of RMB26.14 billion in 2008.

Net Income for the Year

In 2008, our net income (including the income from continuing operations and discontinued operations) reached RMB35.40 billion, up by 64.1% from RMB21.57 billion in 2007. Our basic earnings per share was RMB1.49 in 2008, up by 60.2% from 2007. Excluding the factors discussed under Income From Continuing Operations Before Income Tax above, our basic earnings per share would be RMB1.79, up by 135.6% from 2007 and the significant

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increase of earnings per share was mainly due to the gain on sale of the CDMA business.

Liquidity and Capital Resources

Working Capital and Cash Flows

As of December 31, 2009, we had RMB7.82 billion of cash and cash equivalents, as compared with RMB10.24 billion as of December 31, 2008 and RMB12.66 billion as of December 31, 2007. As of December 31, 2009, we had RMB1.00 billion of short-term bank deposits, as compared with RMB0.34 billion as of December 31, 2008. As of the end of 2009, we had a working capital deficit (current assets minus current liabilities) of RMB169.21 billion, increasing by 88.4% from the working capital deficit of RMB89.80 billion as of the end of 2008. The increase in working capital deficit in 2009 primarily resulted from the increase in our short-term borrowings and accounts payable, which mainly associated with the off-market share repurchase and the development of our 3G business, including 3G network constructions.

A global financial crisis that unfolded in 2008 and has continued during 2009 has widely and adversely affected the financing markets of a number of countries where the banks and other financial institutions are reluctant to lend and impose stricter terms in their lending. Changes in the macroeconomic environment arising from the current global financial crisis have had an adverse impact on economic activity in the PRC. However, under a series of economic stimulus packages launched by the PRC Government, we, due to our enterprise nature and our good credit records with PRC banks, generally have not experienced and do not expect to experience in the foreseeable future significant difficulties in obtaining bank financing in the PRC. As of December 31, 2009, we had revolving banking facilities of RMB113.3 billion, of which, RMB58.8 billion was unutilized. Meanwhile, we will continue to optimize our fund raising strategy from short, medium and long-term perspectives and to pursue opportunities in the current capital market, to take advantage of the low interest rates. Therefore, we believe that we will be able to fund our anticipated capital and liquidity needs with our access to debt and equity financing, in particular bank financing in the PRC, and net cash inflows from our operations.

The following table sets forth cash inflows and outflows in 2007, 2008 and 2009.

	For the Year Ended December 31,		
	2007	**2008**	**2009**
	RMB in millions	**RMB in millions**	**RMB in millions**
Net cash inflow from operating activities of continuing operations	68,854	57,241	57,733
Net cash outflow from investing activities of continuing operations	(47,770)	(54,742)	(85,308)
Net cash (outflow)/inflow from financing activities of continuing operations	(29,805)	(35,070)	30,197
Net cash (outflow)/inflow from continuing operations	**(8,721)**	**(32,571)**	**2,622**
Net cash inflow /(outflow) from discontinued operations	**812**	**30,145**	**(5,039)**
Net decrease in cash and cash equivalents	**(7,909)**	**(2,426)**	**(2,417)**

Our net cash inflow from operating activities of continuing operations decreased by 16.9% from RMB68.85 billion in 2007 to RMB57.24 billion in 2008, but slightly increased by 0.9% to RMB57.73 billion in 2009. The decrease in net cash inflow from operating activities in 2008 was mainly due to our settlement of payables.

Our net cash outflow from investing activities of continuing operations increased by 14.6% from RMB47.77 in 2007 to RMB54.74 billion in 2008, and further increased by 55.8% to RMB85.31 billion in 2009. The increase in 2008 was mainly due to the increase in GSM network expansion and upgrade and payment for the purchase of

businesses under common control. The increase in 2009 was mainly due to the significant increase in our capital expenditure attributable to 3G network construction.

Our net cash outflow from financing activities increased by 17.7% from RMB29.81 billion in 2007 to RMB35.07 billion in 2008, primarily because our proceeds from commercial paper, bank loans and corporate bonds in 2008 decreased to a greater extent than our repayment of commercial paper, bank loans, corporate bonds and related party loans. We had a net cash inflow from financing activities of RMB30.20 billion, primarily due to the increase of our short-term bank loans in 2009.

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Our net cash inflow from discontinued operations increased by 3,612.4% from RMB0.81 billion in 2007 to RMB30.15 billion in 2008, mainly resulting from the gain on disposal of our CDMA business.

Our net cash outflow of approximately RMB0.50 billion from discontinued operations in 2009 represented the income tax paid on the gain on disposal of our CDMA business in 2008 and related professional services paid totaling RMB0.93 billion, offset by our receipt of proceeds of approximately RMB0.43 billion from the disposal of our CDMA business.

Indebtedness and Capital Structure

The following table sets forth the amount of cash, assets, short-term and long-term debt and equity as well as debt-to-capitalization and debt-to-equity ratios as of the end of 2007, 2008 and 2009.

	As of December 31,		
	2007	**2008**	**2009**
	(RMB in millions, except percentages)		
Cash and cash equivalent and short-term bank deposits	13,555	10,574	8,816
Total assets	338,222	348,752	417,045
Short-term debt	45,430	21,996	66,601
Short-term bank loans	11,850	10,780	63,909
Commercial paper	20,000	10,000	
Current portion of long-term bank loans	7,411	1,216	62
Amounts due to related parties	6,169		2,104
Notes payables included in accounts payable and accrued liabilities			500
Current portion of obligations under finance lease included in other obligations			26
Long-term debt	20,046	7,997	7,862
Corporate bonds	2,000	7,000	7,000
Non current portion of long-term bank loans	16,086	997	759
Amounts due to related parties	1,960		
Non current portion of obligations under finance lease			103
Shareholders equity	178,189	207,727	206,467
Debt-to-capitalization ratio[(1)]	26.9%	12.6%	26.5%
Debt-to-equity ratio[(2)]	36.7%	14.4%	36.1%

(1) Debt-to-capitalization ratio = (long-term interest-bearing debt + short-term interest-bearing debt)/(long-term interest-bearing debt + short-term interest-bearing debt + shareholders equity).

(2) Debt-to-equity ratio = (long-term interest-bearing debt + short-term

interest-bearing debt)/shareholders equity.

Our debt-to-capitalization ratio was 26.5% at the end of 2009, compared to 12.6% at the end of 2008, and 26.9% at the end of 2007. Our debt-to-equity ratio was 36.1%, compared to 14.4% at the end of 2008, and 36.7% at the end of 2007. The sum of our long-term and short-term interest-bearing debt exceeds the amount of our cash and cash equivalents and short-term bank deposits by RMB65.65 billion as of December 31, 2009, compared to 19.42 billion as of December 31, 2008 and RMB51.92 billion as of December 31, 2007. We continue to seek to optimize our capital structure, develop multiple financing sources and reduce overall financing costs.

Our outstanding short-term and long-term bank loans, denominated in RMB, U.S. dollar, HK dollar and Euro, was RMB64.73 billion at the end of 2009, compared to RMB12.99 billion at the end of 2008 and RMB35.35 billion at the end of 2007. The increase in 2009 resulted primarily from the borrowings of short-term bank loans to finance the telecommunications network construction and the off-market share repurchase completed during the year. The decrease in 2008 was primarily due to our repayment of prior bank loans with proceeds from the disposal of the CDMA business. The loan agreement does not include financial performance or other covenants which may materially restrict our operations or those of CUCL, our principal operating subsidiary in China. As of December 31, 2009, no short-term bank loans or long-term bank loans were guaranteed by Unicom Group.

In order to further rationalize our debt structure and reduce our interest expense, we may continue to finance a portion of our business operations and capital expenditures through short-term borrowings. Our liquidity in the future will primarily depend on our ability to maintain adequate cash inflow from operations and obtain adequate

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external financing to meet our debt service obligations and planned capital expenditures. Our operating cash flows could be adversely affected by numerous factors beyond our control, including, but not limited to, changes in telecommunications tariffs, decreased demand for our telecommunications services and further intensified competition. Our ability to obtain external financing also depends on numerous factors, including, but not limited to, our financial condition and creditworthiness as well as our relationship with lenders. See D. Risk Factors Risks Relating to Our Business If we are unable to fund our capital expenditure and debt service requirements, our financial condition, results of operations and growth prospects will be adversely affected under Item 3.

On June 8, 2007, we issued RMB2 billion 10-year corporate bonds, bearing interest at 4.5% per annum. The corporate bonds are secured by a guarantee issued by Bank of China Limited. On September 3, 2008, we issued another RMB5 billion 5-year corporate bonds, bearing interest at 5.29% per annum. The corporate bonds are secured by a guarantee issued by State Grid Corporation of China.

In addition, prior to our merger with China Netcom, China Netcom s wholly-owned subsidiary, CNC China (which merged with, and was absorbed by, our wholly-owned subsidiary, CUCL, in January 2009), issued two tranches of RMB10 billion unsecured commercial paper in the PRC capital market with repayment periods of 365 days and 270 days on April 30, 2007 and September 18, 2007, respectively. The effective interest rates were 3.34% and 3.93% per annum, respectively. These commercial papers were fully repaid on May 9, 2008 and June 16, 2008, respectively. On October 6, 2008, CNC China also issued RMB10 billion unsecured commercial paper in the PRC capital market with payment period of 365 days. The effective interest rate is 4.47% per annum. The commercial paper was fully repaid in October 2009.

On April 1, 2010, CUCL completed the issue of the first tranche of commercial paper for the year 2010 in an amount of RMB15 billion, with a maturity period of 365 days and at an interest rate of 2.64% per annum. On April 2, 2010, CUCL completed the issue of the first tranche of promissory note for the year 2010 in an amount of RMB3 billion, with a maturity period of 3 years and at an interest rate of 3.73% per annum.

Contractual Obligations and Commercial Commitments

The following table sets forth the amounts of our outstanding contractual cash obligations as of December 31, 2009.

	Total	Less than 1 year	Between 1 and 3 years	Between 3 and 5 years	Over 5 years
Short-term bank loans (1)*	64,752	64,752			
Long-term bank loans (2)*	881	72	123	124	562
Corporate bonds (3)*	8,665	355	709	5,372	2,229
Other obligations	2,726	2,537	117	12	60
Capital commitments (4)	12,840	11,553	1,176	45	66
Operating leases commitments (4)					
Telecommunications networks leasing arrangement in 21 provinces in southern China	2,200	2,200			
Other commitments	6,703	1,909	2,289	1,326	1,179
Total obligations	98,767	83,378	4,414	6,879	4,096

* Interest included

(1) See Note 26 Short-Term

Bank Loans to our consolidated financial statements.

(2) See Note 20 Long-Term Bank Loans to our consolidated financial statements.

(3) See Note 21 Corporate Bonds to our consolidated financial statements.

(4) See Note 40 Contingencies and Commitments to our consolidated financial statements.

Off-Balance Sheet Arrangements

As of December 31, 2009, except for the operating lease of the telecommunications networks in 21 provinces

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in southern China set forth above in Contractual Obligations and Commercial Commitments , we did not have any other off-balance sheet arrangement.

Capital Expenditures

The following table sets forth our historical and planned capital expenditure requirements for the periods indicated. Actual future capital expenditures may differ from the amounts indicated below.

	For the Year Ended December 31,					
	2008 [3]		2009		2010	
	(RMB in billions)	As a percentage	(RMB in billions)	As a percentage	(RMB in billions)	As a percentage
3G mobile			36.40	32.4%	23.00	31.3%
GSM mobile [1]	33.13	46.8%	20.58	18.3%	8.00	10.9%
Fixed-line broadband and data services	9.10	12.8%	18.80	16.7%	15.30	20.8%
Fixed-line business	0.73	1.0%	0.60	0.5%	0.60	0.8%
Innovation and value-added platform	4.15	5.9%	2.08	1.8%	2.70	3.7%
IT system	2.41	3.4%	6.74	6.0%	4.30	5.9%
Infrastructure and transmission network	18.28	25.8%	25.01	22.2%	17.40	23.7%
Others [2]	3.06	4.3%	2.26	2.0%	2.20	3.0%
Total	70.86	100.0%	112.47	100.0%	73.50	100.0%

(1) Including the capital expenditure attributable to the initial preparation relating to the development of the 3G business.

(2) Other expenditures consist of procurement of miscellaneous assets, equipment and spare parts.

(3) Capital expenditures of 2008 had been restated to reflect the effect

of 2009
Business
Combination.

Our capital expenditure totaled RMB112.47 billion in 2009, which mainly consisted of investment in the GSM, 3G, fixed-line broadband and data, transmission and IT network infrastructure. In 2009, capital expenditure attributable to 3G mobile business was RMB36.40 billion; capital expenditure attributable to GSM mobile business was RMB20.58 billion; capital expenditure attributable to fixed-line broadband and data business and RMB18.80 billion; capital expenditure attributable to infrastructure and transmission networks was RMB25.01 billion; capital expenditure attributable to IT system was RMB6.74 billion.

Our projected capital expenditure for 2010 is estimated to be approximately RMB73.50 billion, a significant portion of which will continue to be used for investments in our 3G business, fixed-line broadband and data business and infrastructure and networks.

We expect to fund our capital expenditure needs through a combination of cash generated from operating activities, granted and unused banking facilities and other available financing sources. See D. Risk Factors Risks Relating to Our Business If we are unable to fund our capital expenditure and debt service requirements, our financial condition, results of operations and growth prospects will be adversely affected. under Item 3.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

The following table sets forth certain information concerning our current directors and executive officers.

Name	Age	Position
Chang Xiaobing	53	Chairman of the Board of Directors and Chief Executive Officer
Lu Yimin	46	Executive Director and President
Zuo Xunsheng	59	Executive Director and Senior Vice President
Tong Jilu	52	Executive Director and Chief Financial Officer
Cesareo Alierta Izuel	65	Non-Executive Director

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Name	Age	Position
Linus Cheung Wing Lam	62	Independent Non-Executive Director
Wong Wai Ming	52	Independent Non-Executive Director
John Lawson Thornton	56	Independent Non-Executive Director
Timpson Chung Shui Ming	58	Independent Non-Executive Director
Cai Hongbin[(1)]	43	Independent Non-Executive Director
Li Jianguo	56	Senior Vice President
Pei Aihua	59	Senior Vice President
Zhao Jidong	59	Senior Vice President
Li Fushen	47	Senior Vice President
Li Gang	52	Senior Vice President
Zhang Junan	53	Senior Vice President
Jiang Zhengxin	52	Senior Vice President

(1) Mr. Cai Hongbin was appointed as an Independent Non-Executive Director of our company on May 13, 2010. Mr. Wu Jinglian retired as Independent Non-Executive Director of our company on May 12, 2010.

Mr. Chang Xiaobing was appointed in December 2004 as an Executive Director, Chairman and Chief Executive Officer of our company. Mr. Chang, a professor level senior engineer, graduated in 1982 from the Nanjing Institute of Posts and Telecommunications with a bachelor s degree in telecommunications engineering and received a master s degree in business administration from Tsinghua University in 2001. He received a doctor s degree in business administration from the Hong Kong Polytechnic University in 2005. Prior to joining China United Telecommunications Corporation, Mr. Chang served as a Deputy Director of the Nanjing Municipal Posts and Telecommunications Bureau of Jiangsu Province and a Deputy Director General of the Directorate General of Telecommunications of the Ministry of Posts and Telecommunications and a Deputy Director General and Director General of the Department of Telecommunications Administration of the former Ministry of Information Industry, as well as Vice President of China Telecommunications Corporation. Mr. Chang was appointed the Chairman of China United Telecommunications Corporation in November 2004. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited (Unicom Group). He serves as the Chairman of Unicom Group, China United Network Communications Limited (A Share Company) and China United Network Communications Corporation Limited (CUCL), respectively. Mr. Chang has extensive operational and managerial experience in the telecommunications industry.

Mr. Lu Yimin was appointed as an Executive Director of our company in October 2008 and President of our company in February 2009. Mr. Lu, a professor level senior engineer, graduated from Shanghai Jiao Tong University with a bachelor s degree in computer science in 1985 and then was awarded a master s degree in public administration by the John F. Kennedy School of Government at Harvard University. Mr. Lu joined China Network Communications

Group Corporation (Netcom Group) in December 2007, serving as senior management. Mr. Lu has served as a Non-Executive Director of PCCW Limited (listed on the HKSE with an American Depositary Receipt trading on the Pink Sheets OTC Market in the U.S.) since May 2008. Prior to joining the Netcom Group, Mr. Lu was a member of the Secretary Bureau of the General Office of the Chinese Communist Party Central Committee, serving as the Deputy Director and the Director of the Information Processing Office since 1992, Secretary at deputy director general level since 2001 and Secretary at director general level since 2005. Mr. Lu is Vice Chairman and President of Unicom Group. Mr. Lu is also a Director and President of the A Share Company, and a Director and President of CUCL. Mr. Lu has extensive experience in government administration and business management.

Mr. Zuo Xunsheng was appointed as an Executive Director of our company in October 2008 and a Senior Vice President of our company in February 2009. Mr. Zuo graduated from Guanghua School of Management of Peking University with an EMBA degree in 2004. From July 1993 to October 1997, Mr. Zuo served as Director of the former Bureau of Telecommunications of Jinan City, Shandong Province. From October 1997 to May 2000, Mr. Zuo served as Director of the former Posts and Telecommunications Bureau of Shandong Province. From May 2000 to

April 2002, Mr. Zuo was President of the former Shangdong Telecommunications Company. Mr. Zuo joined Netcom Group as Vice President in April 2002, and served as Senior Vice President of China Netcom Group Corporation (Hong Kong) Limited (China Netcom) since July 2004, Chief Operating Officer of China Netcom since December 2005, Executive Director and Chief Executive Officer of China Netcom since May 2006 and Chairman of China Netcom since May 2008. In addition, Mr. Zuo has served as a Non-Executive Director and Deputy Chairman of PCCW Limited (listed on the HKSE with an American Depositary Receipt trading on the Pink Sheets OTC Market in the U.S.) since July 2007. Mr. Zuo is Vice Chairman and Vice President of Unicom Group. Mr. Zuo is also a Director of A Share Company and a Director and Senior Vice President of CUCL. Mr. Zuo is well experienced in telecommunications operations and has rich management experience.

Mr. Tong Jilu was appointed in February 2004 as an Executive Director and Chief Financial Officer of our company. Mr. Tong graduated in 1987 from the Department of Economic Management at the Beijing University of Posts and Telecommunications. He received a doctor s degree in management from the Hong Kong Polytechnic University in 2009. Mr. Tong was Deputy Director General of the Posts and Telecommunications Administration of Liaoning Province, as well as the Posts Office of Liaoning Province. Mr. Tong joined China United Telecommunications Corporation in July 2000. He served first as Chief Accountant and later a Vice President and, from September 2003, a Director of China United Telecommunications Corporation. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited (Unicom Group). Mr. Tong now serves as a Director, Vice President and Chief Accountant of Unicom Group. He is also a Director of the A Share Company, and a Director and Senior Vice President of CUCL. Mr. Tong has extensive experience in the management of telecommunications companies and finance management of listed companies.

Mr. Cesareo Alierta Izuel was appointed in October 2008 as a Non-Executive Director of our company. Mr. Alierta has been a member of the Board of Directors of Telefónica S.A. (listed on various stock exchanges including Madrid, New York and London) from January 1997 and has been Chairman of Telefónica S.A. since July 2000. Mr. Alierta is a member of the Board of Directors of Telecom Italia (listed on the stock exchange of Milan). He is also a member of the Columbia Business School Board of Overseers. Between 1970 and 1985, he was the General Manager of the Capital Markets division at Banco Urquijo in Madrid. He has been the founder and Chairman of Beta Capital. As from 1991, he has also acted as the Chairman of the Spanish Financial Analysts Association. He has also been a member of the Board of Directors and the Standing Committee of the Madrid Stock Exchange. Between 1996 and 2000, he held the post of Chairman of Tabacalera, S.A., and subsequently Altadis following the company s merger with the French group Seita. Mr. Alierta served as a Non-Executive Director of China Netcom during the period from December 2007 to November 2008. In September 2005, Mr. Alierta received The Global Spanish Entrepreneur award from the Spanish/US Chamber of Commerce. Mr. Alierta holds a degree in law from the University of Zaragoza and received a master s degree of business administration at the University of Columbia (New York) in 1970.

Mr. Linus Cheung Wing Lam was appointed in May 2004 as an Independent Non-Executive Director of our company. Mr. Cheung is Chairman of the University of Hong Kong School of Professional and Continuing Education. Besides, Mr. Cheung is an independent non-executive director of Taikang Life Insurance Company Limited and a non-executive director of HKR International Limited (listed on the HKSE). Mr. Cheung also serves as President of the Chartered Institute of Marketing (Hong Kong Region) and Adjunct Professor of the Chinese University of Hong Kong. Mr. Cheung was Chairman of Asia Television Limited and Deputy Chairman of PCCW Limited. Prior to the merger of Pacific Century Cyberworks Limited and Cable & Wireless HKT Limited, or Hongkong Telecom, Mr. Cheung was the Chief Executive of Hongkong Telecom and an Executive Director of Cable & Wireless plc in the United Kingdom. Mr. Cheung also worked at Cathay Pacific Airways for 23 years, before departing as Deputy Managing Director. He was appointed an Official Justice of the Peace in 1990 and a Non-official Justice of the Peace in 1992. Mr. Cheung received a bachelor s degree in social sciences and a diploma in management studies from the University of Hong Kong. He is also an Honorary Fellow of the University of Hong Kong and of The Chartered Institute of Marketing in the United Kingdom.

Mr. Wong Wai Ming was appointed in January 2006 as an Independent Non-Executive Director of our company. Mr. Wong is Senior Vice President and Chief Financial Officer of Lenovo Group Limited (listed on the HKSE and the NYSE). In addition, Mr. Wong is an Independent Non-Executive Director of I.T Limited (listed on the HKSE) and a Non-Executive Director of Linmark Group (listed on the HKSE). Prior to his current executive position at Lenovo Group Limited, Mr. Wong was a Chief Executive Officer and Executive Director of Roly International

Holdings Limited and an Executive Director of Linmark Group. Mr. Wong was also a Non-Executive Director of Kingsoft Corporation Limited. Mr. Wong was previously an investment banker with over 15 years of experience in investment banking business in Greater China and was a member of the Listing Committee of The Stock Exchange of Hong Kong Limited. Mr. Wong is a chartered accountant and holds a bachelor s degree (with Honors) in management science from the Victoria University of Manchester in the United Kingdom.

Mr. John Lawson Thornton was appointed in October 2008 as an Independent Non-Executive Director of our company. Mr. Thornton is currently a Professor and Director of the Global Leadership Program at Tsinghua University in Beijing. He is a Director and Non-Executive Chairman of HSBC North America Holdings Inc., as well as a Director of HSBC Holdings plc (listed on the HKSE, London Stock Exchange, NYSE, Paris Stock Exchange and Bermuda Stock Exchange), Ford Motor Company (listed on the NYSE), Intel Corporation (listed on the NASDAQ Global Select Market), News Corporation, Inc. (listed on the NASDAQ Global Select Market and the Australian Stock Exchange), IMG Worldwide, the Committee on Capital Markets Regulation, the National Committee on United States-China Relations and the Financial Services Volunteer Corps, Inc. He is also Chairman of the Brookings Institution Board of Trustees and Chairman of the Advisory Board of Tsinghua University School of Economics and Management; President of the Hotchkiss School Board of Trustees; a Trustee of Asia Society, China Institute, China Foreign Affairs University and the United World College of East Africa Trust; and an International Advisory Committee member of China Reform Forum, the China Securities Regulatory Commission, Eisenhower Fellowships and Morehouse College. He served as an Independent Non-Executive Director of China Netcom from October 2004 to November 2008 and as an Independent Non-Executive Director of Industrial and Commercial Bank of China from October 2005 to November 2008. Mr. Thornton retired in July 2003 as President, Co-Chief Operating Officer and a Director of The Goldman Sachs Group, Inc. Mr. Thornton received an A.B. in history from Harvard College in 1976, a B.A. and M.A. in jurisprudence from Oxford University in 1978 and an M.P.P.M. from the Yale School of Management in 1980.

Mr. Timpson Chung Shui Ming was appointed in October 2008 as an Independent Non-Executive Director of our company. Mr. Chung is currently Director-General of Democratic Alliance for the Betterment and Progress of Hong Kong and a member of the National Committee of the 11th Chinese People s Political Consultative Conference. In addition, Mr. Chung is an Independent Non-Executive Director of Glorious Sun Enterprises Limited, The Miramar Hotel & Investment Co. Limited and Nine Dragons Paper (Holdings) Limited (all listed on the HKSE). Mr. Chung is also an Independent Director of China State Construction Engineering Corporation (listed on the Shanghai Stock Exchange). From October 2004 to November 2008, Mr. Chung served as an Independent Non-Executive Director of China Netcom. Formerly, he was a Director of Hantec Investment Holdings Limited, the Chairman of China Business of Jardine Fleming Holdings Limited, the Deputy Chief Executive Officer of BOC International Limited, the Independent Non-Executive Director of Tai Shing International (Holdings) Limited, and the Chairman of the Council of the City University of Hong Kong. He was also the Chairman of the Hong Kong Housing Society, a member of the Executive Council of the Hong Kong Special Administrative Region, the Vice Chairman of the Land Fund Advisory Committee of Hong Kong Special Administrative Region Government, a member of the Managing Board of the Kowloon-Canton Railway Corporation, a member of the Hong Kong Housing Authority and a member of the Disaster Relief Fund Advisory Committee. Mr. Chung holds a bachelor of science degree from the University of Hong Kong and a master s degree of business administration from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants.

Mr. Cai Hongbin was appointed in May 2010 as an Independent Non-Executive Director of our Company. Mr. Cai is currently an Associate Dean and a Professor in Applied Economics at Guanghua School of Management at Peking University, a Director of J. Mirrlees Institute of Economic Policy Research (IEPR) at Peking University and an Associate Director of Center of Poverty Research at Peking University. In addition, Mr. Cai is an Independent Non-Executive Director of Concord Medical Services Holdings Limited (listed on the NYSE), China Everbright Bank Company Limited and Beijing Venusense Technology. Prior to joining Guanghua School of Management at Peking University, Mr. Cai served as an Assistant Professor of the Economics Department at University of California, Los Angeles, from 1997 to 2005. Mr. Cai received a bachelor s degree in Mathematics from Wuhan University in 1988, a master s degree in Economics from Peking University in 1991, and a doctoral degree in Economics from Stanford

University in 1997. In addition, Mr. Cai was awarded New Century Excellent Talents in University from the Ministry of Education of the PRC in 2006, the National Outstanding Young Researcher from National Science Foundation of China in 2007 and the National Changjiang Scholar from the Ministry of Education of the PRC in 2008. Mr. Cai has

carried out extensive research in the areas of, among others, game theory, industrial organization, corporate finance and Chinese economy, and has published many academic papers in top international and national journals.

Ms. Li Jianguo was appointed as Senior Vice President of our company in February 2009. Ms. Li graduated from the Xiangtan University with a bachelor s degree in Chemical Engineering in 1982 and received a master s degree in business administration from the Hong Kong Polytechnic University in 2006. From June 2000 to July 2007, Ms. Li held various senior positions in China United Telecommunications Corporation, including serving as a director and chairperson of the Labour Union. Ms. Li also served as the Chairperson of the Board of Supervisors of A Shares Company from December 2001 to July 2007 and as Executive Director of our company from April 2006 to July 2007. Ms. Li served as Senior Management in Netcom Group since July 2007. She has also served as Executive Director of China Netcom since July 2007. Ms. Li holds a senior managerial position in Unicom Group. Ms. Li is Chairman of the Supervisory Board of A Share Company, as well as Director and Senior Vice President of CUCL. Ms. Li held leading positions in various enterprises, local governments and state ministries and committees over a long period of time, and she has extensive working and management experiences in government, authorities and enterprises.

Mr. Pei Aihua was appointed as Senior Vice President of our company in February 2009. Mr. Pei is a senior engineer of professor level. He graduated from Beijing University of Posts and Telecommunications in microwave technology in 1976 and Changchun Optical Precision Machinery College with a master s degree in electrical engineering in 1993. He received a master s degree in information and communication management jointly organized by the Management School of Fudan University and the Norway Management School, and a doctor s degree in management from the Hong Kong Polytechnic University. Mr. Pei was Deputy Director of the former China General Bureau of Posts and Telecommunications from June 1997 to July 2000, General Manager of Sichuan Provincial Telecommunications Company from July 2000 to July 2001, and Deputy General Manager of the former Beijing Telecommunications Company from July 2001 to April 2002. He has served as Deputy General Manager of Netcom Group since April 2002. He has also served as Senior Vice President of China Netcom since July 2004. Mr. Pei is a Vice President of Unicom Group, and Director and Senior Vice President of CUCL. Mr. Pei worked in the government and the telecommunications industry in China for a long period of time and has extensive management experience.

Mr. Zhao Jidong was appointed as Senior Vice President of our company in February 2009. He graduated from Fudan University with a bachelor s degree in English in 1975 and obtained a master s degree in information and communication management jointly organized by the Management School of Fudan University and the Norway Management School in 2002. From November 1994 to May 2000, Mr. Zhao served as the Deputy Director and Director of the former Beijing Telecommunications Bureau. He served as General Manager of the former Beijing Telecommunications Company from May 2000 to July 2002, and General Manager of Beijing Communications Company from July 2002 to July 2003. He has served as Deputy General Manager of Netcom Group since July 2003. He has also served as Senior Vice President of China Netcom since July 2004. Mr. Zhao is a Vice President of Unicom Group, and Director and Senior Vice President of CUCL. Mr. Zhao has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. Li Fushen was appointed as Senior Vice President of our company in February 2009. Mr. Li graduated from the Jilin Engineering Institute with a degree in engineering management in 1988, and from the Australian National University with a master s degree in management in 2004. From November 2001 to October 2003, Mr. Li served as Deputy General Manager of the former Jilin Provincial Telecommunications Company and Jilin Communications Company. From October 2003 to August 2005, Mr. Li served as General Manager of the Finance Department of Netcom Group. Since October 2005, he has served as the Chief Accountant of Netcom Group. He has served as Chief Financial Officer of China Netcom since September 2005 and has served as Executive Director of China Netcom since January 2007. From December 2006 to March 2008, Mr. Li served as Joint Company Secretary of China Netcom. In addition, Mr. Li has served as a Non-Executive Director of PCCW Limited since July 2007. Mr. Li is a Vice President of Unicom Group, as well as Director and Senior Vice President of CUCL. Mr. Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. Li Gang was appointed as Vice President of our company in April 2006 and Senior Vice President of our company in February 2009. Mr. Li graduated from Beijing University of Posts and Telecommunications in 1985 and

received a master s degree in business administration from the Department of Advanced Business Administration of Jinan University in 2004. Mr. Li previously served as a Deputy Director of the Telecommunications Division, a Deputy Director of the Telecommunications Department, a Deputy Director of the Rural Telephone Bureau, a Deputy

Director and a Director of the Telecommunications Operation and Maintenance Department of the Posts and Telecommunications Administration Bureau in Guangdong Province and as a Director of the Mobile Communication Bureau in Guangdong Province. From 1999 to 2005, he served as the Deputy Chairman, General Manager and Chairman of Guangdong Mobile Communication Co., Limited and as the Chairman and General Manager of Beijing Mobile Communication Co., Limited. From 2000 to 2005, he also served as an Executive Director of China Mobile (Hong Kong) Limited. Mr. Li joined China United Telecommunications Corporation in December 2005 and served as Vice President. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited. From April 2006 to October 2008, Mr. Li served as an Executive Director of our company. Mr. Li is a Deputy General Manager of Unicom Group, Director and Senior Vice President of CUCL. Mr. Li has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. Zhang Junan was appointed as Vice President of our company in April 2006 and Senior Vice President of our company in February 2009. Mr. Zhang graduated from the Nanjing University of Posts and Telecommunications majoring in carrier communication in 1982. He received a master s degree in business administration from the Australian National University in 2002 and a doctor s degree in business administration from the Hong Kong Polytechnic University in 2008. He previously served as a Director of the Bengbu Municipal Posts and Telecommunications Bureau in Anhui Province and a Deputy Director of the Anhui Provincial Posts and Telecommunications Bureau. From 2000 to 2005, he served as a Deputy General Manager and General Manager of the Anhui Provincial Telecommunications Company and the Chairman and General Manager of the Anhui Provincial Telecommunications Co., Limited. Mr. Zhang joined the China United Telecommunications Corporation in December 2005 and served as Vice President. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited. From April 2006 to October 2008, Mr. Zhang served as the Executive Director of our company. In addition, Mr. Zhang serves as a non-executive director of China Communications Services Corporation Limited. Mr. Zhang also serves as Vice President of Unicom Group, Director and Senior Vice President of CUCL, as well as Executive Director and General Manager of China Unicom Mobile Network Company Limited. Mr. Zhang has worked in the telecommunications industry for a long period of time and has extensive management experience.

Mr. Jiang Zhengxin was appointed as Senior Vice President of our company in February 2009. Mr. Jiang is a senior engineer of professor level. He received a bachelor s degree of radio engineering from Beijing University of Posts and Telecommunications in 1982, a master s degree of business administration from Jilin University in 2001, and a PhD in political economy from Jilin University in 2006. Mr. Jiang served as Deputy Director of the Bureau of Telecommunications Administration in Changchun of Jilin Province from February 1998 to July 1999. He was the Deputy General Manager of Jilin Mobile Communication Company from July 1999 to March 2004. He served as the Deputy General Manager of South Communication Co. Limited of Netcom Group from March 2004 to June 2004, and he was the General Manager of Zhejiang Branch of Netcom Group from June 2004 to September 2007. He has served as Deputy General Manager of Netcom Group since September 2007. Mr. Jiang is a Deputy General Manager of Unicom Group, as well as Director and Senior Vice President of CUCL. Mr. Jiang has worked in the telecommunications industry for a long period of time and has extensive management experience.

B. Compensation

The aggregate compensation and other benefits paid by us to our directors as a group in 2009 was approximately RMB26.57 million, while retirement benefits paid by us were approximately RMB318,000. Each of our executive directors participated in a bonus scheme with us that ties the amount of bonus he or she will receive at the end of a year to our operating results of the year and his or her job performance. Some of our directors also hold options to purchase shares in our company. See E. Share Ownership below for detailed descriptions of our share option schemes and options granted to our directors as well as compensation for the year 2009.

C. Board Practices

General

Pursuant to our articles of association, at each annual general meeting, one-third of our directors retire from office by rotation. The retiring Directors are eligible for re-election. The Board may at any time appoint a new director

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to fill a vacancy or as an additional director. The Board may also appoint and remove our executive officers. No benefits are payable to our directors or executive officers upon termination of their service with us in accordance with the provisions of their service agreements, except certain statutory compensation. The following table sets forth certain information concerning our current directors and former directors who served as directors in 2009.

Name	Appointment Date	Re-appointment Date	Resignation or Retirement Date
Current Directors			
Chang Xiaobing	December 21, 2004	May 12, 2006 and May 26, 2009	
Lu Yimin	October 15, 2008	May 26, 2009	
Zuo Xunsheng	October 15, 2008	May 26, 2009 and May 12, 2010	
Tong Jilu	February 1, 2004	May 12, 2004, May 12, 2006, May 16, 2008 and May 12, 2010	
Cesareo Alierta Izuel	October 15, 2008	May 26, 2009	
Linus Cheung Wing Lam	May 12, 2004	May 12, 2006, May 16, 2008 and May 12, 2010	
Wong Wai Ming	January 19, 2006	May 12, 2006 and May 26, 2009	
John Lawson Thornton	October 15, 2008	May 26, 2009	
Timpson Chung Shui Ming	October 15, 2008	May 26, 2009	
Cai Hongbin	May 13, 2010		
Former Directors			
Kim Shin Bae	October 15, 2008		January 22, 2009
Jung Man Won	January 22, 2009	May 26, 2009	November 5, 2009
Wu Jinglian	April 20, 2000	May 13, 2002, May 12, 2004, May 12, 2005 and May 11, 2007	May 12, 2010

Audit Committee

The audit committee reviews and supervises our financial reporting process and internal controls. The duties of the audit committee include, among others:

- considering and approving the appointment, resignation and removal of our external auditor and the auditor s fees;
- reviewing our interim and annual financial statements and disclosures before submission to the board of directors;

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discussing with the auditor any problems and reservations arising from the audit of the interim and annual financial statements;

reviewing any correspondence from the auditor to our management and the responses of our management;

reviewing the relevant reports concerning our internal controls and procedures;

discussing with our management our internal control system to ensure that our management discharge their duties to have an effective internal control system in place;

pre-approving the audit and non-audit services to be provided by the external auditor, and determining whether any non-audit services would affect the independence of the auditor;

discussing with our management the timing and procedures for the rotation of the partner of the auditing firm responsible for the audit of our company and the partner responsible for the review of audit-related documents;

supervising the internal audit department, which will directly report to the committee; and

having the right to approve the appointment or removal of the head of internal audit department.

As of May 31, 2010, the members of the audit committee are Mr. Wong Wai Ming (Chairman of the audit committee), Mr. Linus Cheung Wing Lam, Mr. John Lawson Thornton, Mr. Timpson Chung Shui Ming and Mr. Cai Hongbin.

Remuneration Committee

The remuneration committee meets regularly to consider human resources issues, issuance of share options and other matters relating to compensation. In particular, the remuneration committee makes recommendations to the Board on directors compensation. The primary duties of the remuneration committee are to make recommendations to the Board regarding the remuneration structure of the executive directors and senior management and to determine specific remuneration packages for the executive directors and senior management on behalf of the Board. The remuneration committee is also responsible for operating our employee share option scheme and any other incentive scheme as they apply to the executive directors, including determining the granting of options to executive directors. As of May 31, 2010, the members of the remuneration committee are Mr. Linus Cheung Wing Lam (Chairman of the remuneration committee), Mr. Wong Wai Ming, Mr. John Lawson Thornton, Mr. Timpson Chung Shui Ming and Mr. Cai Hongbin.

D. Employees

As of December 31, 2007, 2008 and 2009, we had a total number of 199,019, 204,615 and 321,772 employees, respectively. The employees as of December 31, 2009 are classified by function as follows:

By Function	**Number of Employees**
Management and administration	23,282
Sales and customer service	65,235
Product and Marketing	18,612
Network construction and maintenance	82,149
Support	27,494
Temporary employees	105,000
Total	321,772

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E. Share Ownership

As of May 31, 2010, our directors who own shares in our company are listed as follows:

Name	Capacity and Nature	Ordinary Shares Held	Percentage of Total Issued Shares
Linus Cheung Wing Lam	Beneficial Owner *(Personal)*	400,000	0.0017%
Timpson Chung Shui Ming	Beneficial Owner *(Personal)*	6,000	0.0000%

Apart from those disclosed herein, as of May 31, 2010, our other directors as a group do not own any shares in our company.

As of May 31, 2010, our directors as a group hold options for 2,874,894 shares, or approximately 0.012% of our issued and outstanding share capital, including the following options granted under our pre-global offering share option scheme, share option scheme, and special purpose share option scheme:

Name	Capacity and Nature	Number of Shares Covered[1]	Expiration Date	Exercise Price	Consideration Paid	Compensation for 2009 (RMB in thousands)
Directors						
Chang Xiaobing	Beneficial Owner *(Personal)*	526,000	December 20, 2011[3]	HK$6.20	HK$1.00	2,958
		746,000	February 14, 2012	HK$6.35	HK$1.00	
Lu Yimin						2,554
Zuo Xunsheng	Beneficial Owner *(Personal)*	686,894	November 16, 2011[3]	HK$5.57		2,251
Tong Jilu	Beneficial Owner *(Personal)*	292,000	June 22, 2011[3]	HK$15.42	HK$1.00	2,195
		92,000	July 19, 2011[3]	HK$5.92	HK$1.00	
		460,000	February 14, 2012	HK$6.35	HK$1.00	
	Beneficial Owner *(Spouse)*	32,000	July 19, 2011[3]	HK$5.92	HK$1.00	
		40,000	February 14, 2012	HK$6.35	HK$1.00	
Cesareo Alierta Izuel						264
Linus Cheung Wing Lam						344
Wong Wai Ming						370
						344

John Lawson Thornton					
Timpson Chung Shui Ming					344
Cai Hongbin					N/A
Employees[2]	16,977,600	June 21, 2010	HK$15.42	HK$1.00	
	4,058,000	June 22, 2011[3]	HK$15.42	HK$1.00	
	8,956,000	May 20, 2011[3]	HK$4.30	HK$1.00	
	40,900,000	July 19, 2011[3]	HK$5.92	HK$1.00	
	128,000	December 20, 2011[3]	HK$6.20	HK$1.00	
	150,310,000	February 14, 2012	HK$6.35	HK$1.00	
	99,940,204	November 16, 2011[3]	HK$5.57	HK$1.00	
	88,929,468	December 5, 2011	HK$8.26	HK$1.00	

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(1) Each option gives the holder the right to subscribe for one share.

(2) Includes approximately 25,000,000 options held by option holders who were determined by the Board to be Transferred Personnel under applicable share option schemes due to the transfer of those option holders to other telecommunications operators as part of the 2008 industry restructuring.

In 2009, the exercise periods of these 25,000,000 options were extended by one year by the Board pursuant to the amended terms of each of the Pre-Global Offering Share Option Scheme and the Share Option Scheme. The main reasons for extension were (i) that the holders of those options were determined by the Board to be Transferred Personnel under the respective terms of the Pre-Global Offering Share

Option Scheme and the Share Option Scheme due to the transfers of those option holders to other telecommunications operators as part of the 2008 industry restructuring, and (ii) that those options were not exercisable due to a Mandatory Moratorium under the respective terms of each of the Pre-Global Offering Share Option Scheme and the Share Option Scheme. In March 2010, due to the Mandatory Moratorium continuing to be in force, the Board further extended the exercise periods of such options by another year.

(3) The original expiry dates for these options were June 22, 2010, May 20, 2010 (the expiry date of these options was extended from May 20, 2009 to May 20, 2010 by the Board in 2009 pursuant to the amended terms of the Share Option Scheme), July 19, 2010, December 20, 2010 and November 16, 2010, respectively, which

were extended to June 22, 2011, May 20, 2011, July 19, 2011, December 20, 2011 and November 16, 2011, respectively, by the Board in March 2010 pursuant to the amended terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme, because those options were not exercisable due to a Mandatory Moratorium under the respective terms of each of the Share Option Scheme and the Special Purpose Share Option Scheme.

Stock Incentive Schemes

Share Option Scheme. We adopted a share option scheme on June 1, 2000, and amended the scheme on each of May 13, 2002, May 11, 2007 and May 26, 2009. The amended scheme provides for the grant of options to our employees, including executive directors and non-executive directors. Any grant of share options to a connected person (as defined in the HKSE Listing Rules) of Unicom requires approval by our independent non-executive directors, excluding any independent non-executive director who is the grantee of the option. We plan to grant options that cover a total number of ordinary shares not exceeding 10% of the total number of our issued and outstanding shares as of May 13, 2002. The option period commences on any date after the date on which an option is offered, but may not exceed 10 years from the offer date. The subscription price of a share in respect of any particular option granted under this share option scheme will be determined by our board of directors in its discretion at the grant date, which shall be no less than the higher of: (i) the nominal value of the shares; (ii) the closing price of the shares on the HKSE on the grant date of such option; and (iii) the average closing price of the shares on the HKSE for the five trading days immediately preceding the grant date. As of May 31, 2010, 206,540,000 options granted by us under the share option scheme were outstanding and held by 2 directors and approximately 2,800 of our employees. As of May 31, 2010, no option granted under this scheme had been exercised.

Pre-Global Offering Share Option Scheme. We adopted a pre-global offering share option scheme on June 1, 2000, and amended the scheme on each of May 13, 2002, May 11, 2007 and May 26, 2009. As of May 31, 2010, 16,977,600 options granted by us under the pre-global offering share option scheme were outstanding and held by approximately 185 of our employees. No option was held by the directors. We do not expect to grant further options under this scheme. The amended terms of the pre-global offering share option scheme are substantially the same as the share option scheme, except for the following:

The subscription price of a share in respect of any particular option granted under the pre-global offering share option scheme is HK$15.42, the offer price in the Hong Kong public offering portion of our initial public offering, excluding brokerage fees and transaction levy.

The period during which an option may be exercised commences two years from the date of grant and ends 10 years from June 22, 2000.

As of May 31, 2010, no option granted under this scheme had been exercised.

Special Purpose Share Option Scheme. We also adopted a special purpose share option scheme on September 16, 2008, in connection with our merger with China Netcom and amended the scheme on May 26, 2009. The special purpose share option scheme provides for the grant of options to the optionholders of China Netcom, in consideration for the cancellation of their outstanding China Netcom options (whether vested or not) on October 14, 2008. There are two exercise periods for the options granted under the special purpose share option scheme, one of which commenced on October 15, 2008, and will end on November 16, 2011 (as extended by the Board), with an exercise price of HK$5.57 and the other commenced on October 15, 2008, and will end on December 5, 2011, with an

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exercise price of HK$8.26. No amount was payable on acceptance of the grant of options under the special purpose share option scheme. As of May 31, 2010, 189,556,566 options granted under this scheme were outstanding and held by one director and approximately 690 of our employees. As of May 31, 2010, no options granted under this scheme had been exercised.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

As of May 31, 2010, our controlling shareholder, Unicom Group, through its 17.90% direct interest in Unicom BVI, 61.05% direct interest in the A Share Company (which in turn holds 82.10% of Unicom BVI) and 100% direct interest in Netcom BVI, indirectly and beneficially owned approximately 16.7 billion shares of Unicom, or 71.02% of our total outstanding shares. See A. History and Development of the Company under Item 4. Unicom Group s shares are held by the SASAC and a group of companies, most of which are state-owned enterprises in China. Shares beneficially owned by Unicom Group do not carry voting rights different from our other issued shares. In addition, Telefónica held 8.37% of our total outstanding shares.

As of May 31, 2010, most of our shareholders of record were located outside of the United States. In addition, as of May 31, 2010, there were approximately 82,200,000 ADSs outstanding, each representing 10 shares and together representing 3.49% of our total outstanding shares or 12.03% of our total outstanding shares not beneficially owned by our controlling shareholder.

B. Related Party Transactions

Prior to our merger with China Netcom, Netcom BVI and Netcom Group (which was the 100% owner of Netcom BVI) did not have any shareholding interest in us. Upon completion of the merger, China Netcom became one of our wholly-owned subsidiaries and Netcom BVI currently owns 29.74% of our total outstanding shares. Accordingly, the related party transactions between China Netcom and its subsidiaries, namely, CNC China (which merged with, and was absorbed by, CUCL in January 2009 after the completion of our merger with China Netcom) and China Unicom System Integration (formerly known as China Netcom System Integration , which became one of our wholly-owned subsidiaries upon the completion of our merger with China Netcom), on one hand and Netcom Group (which merged with, and was absorbed by, Unicom Group in January 2009 after the completion of our merger with China Netcom) on the other hand in effect before our merger with China Netcom became our related party transactions upon the completion of the merger.

There were transactions between certain of our subsidiaries and Netcom Group in existence before our merger with China Netcom. Upon completion of the merger, these transactions became our related party transactions. On August 12, 2008, CUCL and Netcom Group entered into various framework agreements to record the principles governing, and the principal terms of, these continuing transactions that would take effect upon the completion of our merger with China Netcom.

In addition, before our merger with China Netcom, we had entered into a number of service arrangements with Unicom Group and/or its subsidiaries (other than us and our subsidiaries) with respect to the provision of ongoing telecommunications and ancillary services between Unicom Group and us. On October 26, 2006, we entered into a comprehensive services agreement with Unicom Group to record such related party transactions. In order to include CNC China as a party to the service arrangements and to facilitate our business and operations after our merger with China Netcom, Unicom Group and the A Share Company entered into a comprehensive services agreement on August 12, 2008, and the A Share Company, CUCL and CNC China entered into a transfer agreement on August 12, 2008, to amend the terms of the continuing related party transactions between us and Unicom Group in existence before our merger with China Netcom, with effect upon the completion of the merger.

Our related party transactions in connection with the lease of and the option to purchase the CDMA network from Unicom Group were terminated upon the disposal of our CDMA business.

In January 2009, subsequent to our merger with China Netcom and the disposal of our CDMA business, we

completed our acquisitions, through CUCL, of certain telecommunications business and assets from Unicom Group and Netcom Group, including the telecommunications business across 21 provinces in southern China.

Furthermore, the effects of certain of our and China Netcom s related party transactions that occurred before 2008 (including, for example, those in relation to our and China Netcom s initial public offerings) were not substantially affected by either our merger with China Netcom or the disposal of our CDMA business.

Continuing Related Party Transactions between China Unicom s Subsidiaries and Unicom Group

Domestic Interconnection Settlement Agreement

CNC China and Netcom Group entered into a domestic interconnection settlement agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. As CNC China and Netcom Group were merged into CUCL and Unicom Group, respectively, in January 2009, the parties to the agreement became CUCL and Unicom Group. If CUCL notifies Unicom Group at least three months prior to the expiration of the domestic interconnection settlement agreement of its intention to renew the agreement, it can be renewed with the same terms for further three-year periods.

Pursuant to the domestic interconnection settlement agreement, the parties agree to interconnect the networks of Unicom Group and CUCL and settle the charges received in respect of domestic long distance voice services within their respective service regions on a quarterly basis.

For domestic long distance voice services between Unicom Group and CUCL, the telephone operator in the location of the calling party makes a settlement payment to the telephone operator in the location of the called party at the rate of RMB0.06 per minute, irrespective of whether the call terminates within the network of either Unicom Group or CUCL or outside the network of either Unicom Group or CUCL. The rate of RMB0.06 per minute is adjustable with reference to the relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in the PRC from time to time. In the case where the call terminates outside the network of either Unicom Group or CUCL, the settlement payment is at the rate of RMB0.06 per minute.

International Long Distance Voice Services Settlement Agreement

CNC China and Netcom Group entered into an international long distance voice services settlement agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. As CNC China and Netcom Group were merged into CUCL and Unicom Group, respectively, in January 2009, the parties to the agreement became CUCL and Unicom Group. If CUCL notifies Unicom Group at least three months prior to the expiration of the international long distance voice services settlement agreement of its intention to renew the agreement, it can be renewed with the same terms for further three-year periods.

Pursuant to the international long distance voice services settlement agreement, the parties agree to interconnect the networks of Unicom Group and CUCL and settle the charges received in respect of international long distance voice services on a quarterly basis.

For outbound international calls from the PRC, Unicom Group reimburses CUCL for any amount CUCL pays to overseas telecommunications operators. The revenues received by Unicom Group less the amount paid to overseas telecommunications operators are shared between Unicom Group and CUCL in proportion to the estimated costs incurred by Unicom Group and CUCL in connection with the provision of outbound international long distance voice services.

For inbound international calls into the PRC, the revenues received by CUCL from overseas telecommunications operators (other than China Netcom and entities under its control) less the amount paid to Unicom Group at the rate of RMB0.06 per minute (irrespective of whether the call terminates within the network of Unicom Group or within the network of other telecommunications operators) are shared between Unicom Group and CUCL in proportion to the estimated costs incurred by Unicom Group and CUCL in connection with the provision of inbound international long distance voice services. The rate of RMB0.06 per minute is adjustable with reference to the

relevant standards, tariffs or policies promulgated by the relevant regulatory authorities in the PRC from time to time.

In the case where an inbound international call terminates within the network of telecommunications operators other than Unicom Group, an amount calculated at the rate of RMB0.06 per minute is paid to Unicom Group by CUCL.

Framework Agreement for Interconnection Settlement

CUCL and Unicom Group entered into a framework agreement for interconnection settlement on August 12, 2008, to record the principles governing, and the principal terms of, the then-existing continuing transactions between the parties whereby the parties agreed to interconnect the networks of Unicom Group and CUCL and settle charges received in respect of domestic long distance voice services within their respective service regions and international long distance voice services.

Pursuant to the framework agreement for interconnection settlement, within the local networks, when a CUCL mobile telephone customer calls a Unicom Group fixed-line customer, or when customers of the two operators make inter-network calls to various call centers, the telephone operator in the location of the calling party makes a settlement payment to the telephone operator in the location of the called party at the rate of RMB0.06 per minute. When a Unicom Group fixed-line customer calls a CUCL mobile telephone customer, there shall be no settlement provisionally.

When a CUCL mobile telephone user chooses to use Unicom Group s domestic or international long distance call services, or when a Unicom Group local fixed-line user chooses to use CUCL s domestic or international long distance call services, the telephone operator in the location of the receiver makes a settlement payment to the telephone operator in the location of the calling party at the rate of RMB0.06 per minute.

For domestic long distance voice services and Internet protocol voice services from one operator to another or for international voice services and international Internet protocol voice services from one operator to another, the telephone operator in the location of the calling party makes a settlement payment to the telephone operator in the location of the receiver at the rate of RMB0.06 per minute.

However, for domestic long distance voice services between the parties where the calling party is unable to choose to use a third-party operator, the settlement payment rate will be RMB0.34 per minute if the call is made between 0:00 and 07:00 hours and RMB0.54 per minute if the call is made between 07:00 and 23:59 hours. For calls that need to be transferred to a third-party operator, the settlement rate for the transfer is RMB0.03 per minute.

Engineering and Information Technology Services Agreement and Framework Agreement for Engineering and Information Technology Services

CNC China and Netcom Group entered into an engineering and information technology services agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. As CNC China and Netcom Group were merged into CUCL and Unicom Group, respectively, in January 2009, the parties to the agreement became CUCL and Unicom Group. If CUCL notifies Unicom Group at least three months prior to the expiration of the engineering and information technology services agreement of its intention to renew the agreement, it can be renewed with the same terms for further three-year periods.

CUCL and Unicom Group entered into a framework agreement for engineering and information technology services on August 12, 2008 to record the principles governing, and the principal terms of, the then-existing continuing transactions between the parties relating to the provision of certain engineering and information technology-related services to CUCL by Unicom Group.

Under the engineering and information technology services agreement and framework agreement for engineering and information technology services, Unicom Group agrees to provide to CUCL certain engineering and information technology-related services, which include planning, surveying, design, construction and supervision services in relation to telecommunications engineering projects and information technology services, including office

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automation, software testing, network upgrade, new business development and support system development.

The charges payable for engineering and information technology-related services described above are determined with reference to the relevant market rates. In addition, where the value of any single item of engineering design or supervision-related services is expected to exceed RMB0.5 million or where the value of any single item of engineering construction-related services is expected to exceed RMB2 million, the award of such services will be subject to competitive bidding. The charges are settled between CUCL and Unicom Group as and when the relevant services are provided.

Master Sharing Agreement

CNC China and Netcom Group entered into a master sharing agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. As CNC China and Netcom Group were merged into CUCL and Unicom Group, respectively, in January 2009, the parties to the agreement became CUCL and Unicom Group. If CUCL notifies Unicom Group at least three months prior to the expiration of the master sharing agreement of its intention to renew the agreement, it can be renewed with the same terms for further three-year periods.

Pursuant to the master sharing agreement:

(a) CUCL agrees to provide customer relationship management services for large enterprise customers of Unicom Group;

(b) CUCL agrees to provide network management services to Unicom Group;

(c) CUCL agrees to share with Unicom Group the services provided by administrative and managerial staff in respect of central management of the business operations, financial control, human resources and other related matters of both CUCL and Unicom Group;

(d) CUCL agrees to provide to Unicom Group supporting services, such as billing and settlement provided by CUCL s business support center;

(e) Unicom Group agrees to provide to CUCL supporting services, including telephone card production, development and certain related services;

(f) Unicom Group agrees to provide to CUCL certain other shared services, including advertising, publicity, research and development, business hospitality, maintenance and property management;

(g) Unicom Group agrees to provide certain office space in its headquarters to CUCL for use as CUCL s principal executive office; and

(h) CUCL and Unicom Group agree to share the revenues received by Unicom Group from other telecommunications operators whose networks interconnect with the Internet backbone network of Unicom Group and share the monthly connection fee that Unicom Group pays to the State Internet Switching Center.

CUCL and Unicom Group co-own certain equipment and facilities that form the Internet backbone network of the PRC. This Internet backbone network interconnects with the networks of other telecommunications operators. Such interconnection arrangements generate revenues which other telecommunications operators settle with Unicom Group, and such revenues are shared between Unicom Group and CUCL under the master sharing agreement.

The services referred to in clauses (a) to (g) above are provided by CUCL or Unicom Group and the revenues and fees referred to in clause (h) above are shared between CUCL and Unicom Group on an ongoing basis from time to time. The aggregate costs incurred by CUCL or Unicom Group for the provision of the services referred to in clauses (a) to (g) above and the revenues and fees receivable and payable by CUCL or Unicom Group as referred to in

clause (h) above are apportioned between CUCL and Unicom Group according to their respective total asset values as shown in their respective financial statements on an annual basis.

Property Leasing Agreement and Framework Agreement for Property Leasing

CNC China and Netcom Group entered into a property leasing agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. As CNC China and Netcom Group were merged into CUCL and Unicom Group, respectively, in January 2009, the parties to the agreement became CUCL and Unicom Group. If CUCL notifies Unicom Group at least three months prior to the expiration of the property leasing agreement of its intention to renew the agreement, it can be renewed on the same terms for further three-year periods.

CUCL and Unicom Group entered into a framework agreement for property leasing on August 12, 2008 to record the principles governing, and the principal terms of, the then-existing continuing transactions between the parties relating to the leasing of properties (including offices and storage facilities) by CUCL from Unicom Group.

Pursuant to the property leasing agreement and the framework agreement for property leasing, CUCL agrees to lease to Unicom Group certain properties located throughout CUCL s service regions for Unicom Group s use as offices and for other ancillary purposes, and Unicom Group agrees to lease to CUCL certain properties located throughout CUCL s service regions for CUCL s use as offices and telecommunications equipment sites and for other ancillary purposes.

The charges payable by CUCL and by Unicom Group under the property leasing agreement are based on the relevant market rates or the depreciation charges and taxes in respect of each property, provided that such depreciation charges and taxes shall not be higher than the market rates. The charges are payable quarterly in arrears and are subject to review every year to take into account the then-prevailing market rates of the properties leased in that year.

Materials Procurement Agreement

CNC China and Netcom Group entered into a materials procurement agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. As CNC China and Netcom Group were merged into CUCL and Unicom Group, respectively, in January 2009, the parties to the agreement became CUCL and Unicom Group. If CUCL notifies Unicom Group at least three months prior to the expiration of the materials procurement agreement of its intention to renew the agreement, it can be renewed on the same terms for further three-year periods.

Pursuant to the materials procurement agreement:

(a) CUCL may request Unicom Group to act as its agent for the procurement of imported and domestic telecommunications equipment and other domestic non-telecommunications equipment;

(b) CUCL may purchase from Unicom Group certain products, including cables, modems and telephone directories; and

(c) Unicom Group agrees to provide to CUCL storage and transportation services related to the procurement and purchase of materials or equipment under the agreement.

Under the materials procurement agreement, commissions and/or charges for the domestic materials procurement services referred to in clause (a) above cannot exceed 3% of the value of the relevant contract. Commissions and/or charges for the imported materials procurement services referred to in clause (a) above cannot exceed 1% of the value of the relevant contract. The price for the purchases of Unicom Group s products referred to in clause (b) above is determined with reference to the following pricing principles and limits:

the price fixed by the PRC Government;

where there is no price fixed by the PRC Government but there is a price recommended by the PRC Government, the government-recommended price;

where there is neither a government-fixed price nor a government-recommended price, the market price; or

where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

Commission and/or charges for the storage and transportation services referred to in clause (c) above are to be determined with reference to the relevant market rates. Payments under the materials procurement agreement will be made as and when the relevant equipment or products are procured and delivered.

Ancillary Telecommunications Services Agreement and Framework Agreement for Ancillary Telecommunications Services

CNC China and Netcom Group entered into an ancillary telecommunications services agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. As CNC China and Netcom Group were merged into CUCL and Unicom Group, respectively, in January 2009, the parties to the agreement became CUCL and Unicom Group. If CUCL notifies Unicom Group at least three months prior to the expiration of the ancillary telecommunications services agreement of its intention to renew the agreement, it can be renewed on the same terms for further three-year periods.

CUCL and Unicom Group entered into a framework agreement for ancillary telecommunications services on August 12, 2008 to record the principles governing, and the principal terms of, the then-existing continuing transactions between the parties relating to the provision of ancillary telecommunications services to CUCL by Unicom Group.

Under the ancillary telecommunications services agreement and the framework agreement for ancillary telecommunications services, Unicom Group agrees to provide certain ancillary telecommunications services to CUCL. These services include certain pre-sale, on-sale and after-sale telecommunications services, such as assembling and repairing of telecommunications equipment, sales agency services, printing and invoice delivery services, maintenance of telephone booths, customer acquisition and servicing, and other customer services.

The charges payable for the services described above are determined with reference to the following pricing principles and limits:

the price fixed by the PRC Government;

where there is no price fixed by the PRC Government but there is a price recommended by the PRC Government, the government-recommended price;

where there is neither a government-fixed price nor a government-recommended price, the market price; or

where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

The service charges are settled between CUCL and Unicom Group as and when the relevant services are provided.

Support Services Agreement and Framework Agreement for Support Services

CNC China and Netcom Group entered into a support services agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. As CNC China and

Netcom Group were merged into CUCL and Unicom Group, respectively, in January 2009, the parties to the agreement became CUCL and Unicom Group. If CUCL notifies Unicom Group at least three months prior to the expiration of the support services agreement of its intention to renew the agreement, it can be renewed on the same terms for further three-year periods.

CUCL and Unicom Group entered into a framework agreement for support services on August 12, 2008 to record the principles governing, and the principal terms of, the then-existing continuing transactions between the parties relating to the provision of various support services to CUCL by Unicom Group, including equipment leasing and maintenance services, motor vehicle services, security services, basic construction agency services, research and development services, employee training services, advertising services and other support services.

Pursuant to the support services agreement and the framework agreement for support services, Unicom Group agrees to provide CUCL with various support services, including equipment leasing (other than equipment covered under the telecommunications facilities leasing agreement discussed below) and maintenance services, motor vehicle services, security services, basic construction agency services, research and development services, employee training services, advertising services and other support services.

The charges payable for the services described above are determined with reference to the following pricing principles and limits:

- the price fixed by the PRC Government;
- where there is no price fixed by the PRC Government but there is a price recommended by the PRC Government, the government-recommended price;
- where there is neither a government-fixed price nor a government-recommended price, the market price; or
- where none of the above is applicable, the price to be agreed between the relevant parties and determined on a cost-plus basis.

The service charges are settled between CUCL and Unicom Group as and when the relevant services are provided.

Telecommunications Facilities Leasing Agreement and Framework Agreement for Telecommunication Facilities Leasing

CNC China and Netcom Group entered into a telecommunications facilities leasing agreement on November 6, 2007, which renewed a previous similar agreement, for a term of three years commencing on January 1, 2008. As CNC China and Netcom Group were merged into CUCL and Unicom Group, respectively, in January 2009, the parties to the agreement became CUCL and Unicom Group. If CUCL notifies Unicom Group at least three months prior to the expiration of the telecommunications facilities leasing agreement of its intention to renew the agreement, such agreement can be renewed on the same terms for further three-year periods.

CUCL and Unicom Group entered into a framework agreement for telecommunications facilities leasing on August 12, 2008 to record the principles governing, and the principal terms of, the then-existing continuing transactions between the parties relating to the lease by Unicom Group of certain international telecommunications resources and certain other telecommunications facilities to CUCL.

Pursuant to the telecommunications facilities leasing agreement and the framework agreement for telecommunications facilities leasing:

(a) Unicom Group agrees to lease certain inter-provincial fiber optic cables within CUCL s service regions to CUCL;

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(b) Unicom Group agrees to lease certain international telecommunications resources (including international telecommunications channel gateways, international telecommunications service gateways, international submarine cable capacity, international land cables and international satellite facilities) to CUCL; and

(c) Unicom Group agrees to lease to CUCL certain other telecommunications facilities required by CUCL for its operations.

The rental charges for the leasing of the inter-provincial fiber optic cables, international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such fiber optic cables, resources and telecommunications facilities, provided that such charges would not be higher than the relevant market rates. CUCL is responsible for the ongoing maintenance of such inter-provincial fiber optic cables and international telecommunications resources. CUCL and Unicom Group shall determine and agree which party is to provide maintenance service to the telecommunications facilities referred to in clause (c) above. Unless otherwise agreed by CUCL and Unicom Group, such maintenance service charges would be borne by CUCL. If Unicom Group shall be responsible for maintaining any telecommunications facilities referred to in clause (c) above, CUCL shall pay to Unicom Group the relevant maintenance service charges, which shall be agreed between the parties and determined on a cost-plus basis. The net rental charges and service charges due to Unicom Group under the telecommunications facilities leasing agreement are settled between CUCL and Unicom Group on a quarterly basis.

Information and Communications Technology Agreement

China Netcom System Integration Limited Corporation, which also became one of our subsidiaries upon the completion of our merger with China Netcom and changed its name to China Unicom System Integration Limited Corporation, and Unicom Group entered into an information and communications technology agreement on November 6, 2007, which replaced a previous similar agreement, for a term of three years commencing on January 1, 2008. If both parties agree, the agreement can be renewed with the same terms for further three-year periods.

Pursuant to the information and communications technology agreement:

(a) China Unicom System Integration (and its subsidiaries) agrees to provide information and communications technology services to Unicom Group (and its subsidiaries, other than China Unicom and its subsidiaries), which include system integration services, software development services, operational maintenance services, consultancy services, equipment leasing-related services and product sales-and distribution-related services; and

(b) China Unicom System Integration agrees to subcontract services ancillary to the provision of information and communications technology services referred to in clause (a) above, namely, system installation and configuration services, to the subsidiaries and branches of Unicom Group (other than China Unicom and its subsidiaries) in Unicom Group s southern service regions in the PRC.

The charges payable for the services provided under the information and communications technology agreement are determined with reference to the following pricing principles and limits:

the price fixed by the PRC Government;

where there is no price fixed by the PRC Government but there is a price recommended by the PRC Government, the government-recommended price; or

where there is neither a government-fixed price nor a government-recommended price, the market price.

In relation to the charges payable for the services provided under the information and communications technology agreement that are to be determined with reference to the market price:

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if the value of any single item of system installation and configuration services provided by Unicom Group (and its subsidiaries, other than China Unicom and its subsidiaries) to China Unicom System Integration (and its subsidiaries) is expected to exceed RMB0.3 million, the award of such services will be subject to competitive bidding; or

if the value of any single item of system integration, software development, operational maintenance, consultancy and equipment leasing-related services is expected to exceed RMB0.5 million, or where the value of any single item of product sales and distribution related services is expected to exceed RMB2 million, the award of such services will be subject to competitive bidding.

Amended Continuing Related Party Transactions

Under the two-step approach described under A. History and Development of the Company Two-Step Voting Arrangements of Item 4 above, the continuing transactions between CUCL and Unicom Group under the comprehensive services agreement entered into in 2006 were amended, effective upon the completion of our merger with China Netcom, with CNC China added as party to such transactions. In January 2009, CNC China merged into CUCL. The new comprehensive services agreement is valid for a term of three years. Unless CUCL notifies Unicom Group at least 60 days prior to the expiration of such agreement of their intention not to renew a new comprehensive services agreement, such agreement shall automatically be renewed for a further period of three years. The total amount paid by CUCL to Unicom Group (or its subsidiaries, other than us and our subsidiaries) under the 2006 comprehensive services agreement and the new comprehensive services agreement was approximately RMB2.21 billion and RMB0.31 billion for continuing operations and discontinued operations, respectively, in 2008. Unicom Group paid RMB0.18 million to CUCL in 2008.

Details of the amended continuing related party transactions, the material terms of which are substantially similar to those of the related party transactions under the 2006 comprehensive services agreement, are summarized below.

Supply of Telephone Cards

Unicom Group (or its subsidiaries, other than us and our subsidiaries) agrees to provide various kinds of telephone cards, including subscriber identity module cards, Internet protocol telephone cards, long-distance calling cards and rechargeable calling cards, for CUCL s various networks. Unicom Group agrees to ensure that the quality of its telephone cards complies with the standards set by the governmental authorities.

Charges for the supply of these cards are based on the actual costs (including the cost of purchasing telephone cards, manufacturing cost and the cost of issuing telephone cards) incurred by Unicom Group or its subsidiaries in supplying the cards together with a margin over cost to be agreed from time to time, but in any case not to exceed 20% of the cost and subject to appropriate volume discounts. Under the new comprehensive services agreement, prices and volumes will be reviewed by the parties on an annual basis.

In January 2009, we, through CUCL, completed the acquisition from Unicom Group of 100% of the equity interest in Unicom Xingye, which is engaged in, among other things, manufacturing, research and design of SIM cards and other telephone cards in the PRC. As a result, this transaction has eliminated our related party transactions with respect to telephone cards with Unicom Xingye.

Provision of Equipment Procurement Services

Unicom Group agrees to provide comprehensive procurement services to CUCL through its subsidiary or subsidiaries (other than us and our subsidiaries). Unicom Group agrees to procure foreign and domestic telecommunications equipment and other materials required in the operation of CUCL s various networks and agrees to provide services on management and consultation of competitive biddings and agency services.

Charges for these services described above are calculated at the rate of:

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(a) 0.55% of the contract value of those procurement contracts up to and including US$30 million and 0.35% of the contract value of those procurement contracts over US$30 million, in the case of imported equipment; and

(b) 0.25% of the contract value of those procurement contracts up to and including RMB200 million and 0.15% of the contract value of those procurement contracts over RMB200 million, in the case of domestic equipment.

Interconnection Arrangements

CUCL and Unicom Group agree to interconnect various telecommunications networks of CUCL, on one hand, and Unicom Group on the other hand.

The parties agree to conduct settlements in accordance with the settlement standard stipulated in the Notice Concerning the Issue of the Measures on Settlement of Interconnection between Public Telecommunications Networks and Sharing of Relaying Fees (Xin Bu Dian 2003 No. 454) promulgated by the former Ministry of Information Industry of the PRC on October 28, 2003.

The parties further agree that if the settlement method (and its amendment from time to time) formulated by the relevant government authorities in respect of similar settlements between telecommunications networks is more favorable to CUCL when compared with the above interconnection settlement arrangements, settlement shall be conducted pursuant to the more favorable settlement method.

Previously, Unicom Group had interconnection arrangements with Unicom Group. These arrangements terminated upon the completion of our merger with China Netcom.

Mutual Provision of Premises

CUCL and Unicom Group (including itself or any of its subsidiaries, but other than us and our subsidiaries) agree to provide to each other premises (including buildings, air conditioning, electricity, power-generating equipment and other relevant auxiliary facilities) belonging to CUCL or Unicom Group (including itself or any of its subsidiaries, but other than us and our subsidiaries) or leased to CUCL or Unicom Group (including itself or any of its subsidiaries, but other than us and our subsidiaries) by independent third parties upon the request of any of the three parties from time to time.

Apart from cases where the premises have been leased from independent third parties, the use fees or the rental amounts are based on the lower of depreciation costs and market prices for similar premises in that locality. However, any of CUCL or Unicom Group (including itself or any of its subsidiaries, but other than us and our subsidiaries) may choose to charge each other market price for premises rented to the other party or parties.

In addition to the rental amounts, with respect to buildings, CUCL or Unicom Group (including itself or any of its subsidiaries, but other than us and our subsidiaries) agree to pay scheduled water and electricity tariffs, air-conditioning charges and other expenses actually consumed or used, together with the property management fees for the leased buildings, in accordance with such price or fee standards stipulated by the pricing authority. Apart from the rental amounts and disbursements described above and other expenses incurred as a result of any breach of contract, the party providing the lease guarantees that the other party shall not be requested to pay any other expenses, including any taxes payable by the party providing the lease.

In cases where the premises have been leased from an independent third-party, the use fees or the rental amounts are the amounts that are payable under the head lease. Charges for any air-conditioning and electricity are to be included in the rental amounts. In the case of shared premises, the use fees or the rental amounts are split in proportion to the respective areas occupied by the parties.

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Provision of International Telecommunications Network Gateways

Unicom Group agrees to provide international access to CUCL s international long distance call services through its gateways at Shanghai, Guangzhou and Beijing. Unicom Group agrees not to provide international telecommunications network gateway services to any other party.

Charges for these services are based on the costs of Unicom Group to operate and maintain the international telecommunications network gateway facilities (including depreciation costs) that have been included in the management accounts of Unicom Group, verified and audited by local auditors and with a margin of 10% over such costs. CUCL agrees to retain all the revenues arising from the provision of international long-distance call services for their own benefit.

Provision of Operator-Based Value-Added Services

Unicom Group (or its subsidiaries, other than us and our subsidiaries) agrees to use its operator-based network, equipment and operators to provide operator-based comprehensive value-added services to CUCL, including, but not limited to, Unicom Assistant and operator-based message services.

CUCL agrees to retain 40% of the revenues generated from operator-based value-added services provided to our subscribers (and actually received by CUCL) and to allocate 60% of such revenues to Unicom Group for settlement, on the condition that such proportion allocated to Unicom Group shall not be higher than the average proportion allocated by independent operator-based value-added telecommunications content providers who provide operator-based value-added telecommunications content to us in the same regions.

Provision of Value-Added Telecommunications Services

Unicom Group (or its subsidiaries, other than us and our subsidiaries) agrees to provide the customers of CUCL with various types of value-added telecommunications services.

CUCL agrees to retain a portion of the revenues generated from the value-added services provided to our subscribers (and actually received by CUCL) and to allocate a portion of such revenues to Unicom Group for settlement, on the condition that such proportion allocated to Unicom Group shall not be higher than the average proportion allocated by independent value-added telecommunications content providers who provide value-added telecommunications content to us in the same regions. The percentage of revenues to be allocated to Unicom Group by CUCL will vary depending on the types of value-added services provided to us.

Provision of 10010/10011 Customer Services

Unicom Group (or its subsidiaries, other than us and our subsidiaries) agrees to provide customer services to CUCL in relation to business inquiries, tariff inquiries, account maintenance, complaint handling (which are also known as 10010 basic services), customer interviews and subscriber retention (which are also known as 10010 value-added services).

The service fees payable by CUCL to Unicom Group shall be calculated on the basis of the costs of the customer services plus a profit margin of not more than 10%. The costs of the customer services will be the cost per operator seat multiplied by the number of effectively operating operator seats:

(a) The cost per operator seat in economically developed metropolises, such as Beijing, Shanghai and Guangdong, shall be the Actual Cost per Operator Seat (as defined below) in such area for the previous year. The cost per operator seat in areas apart from those economically developed metropolises shall be the lower of the Actual Cost per Operator Seat in the same region and the nationwide (excluding Beijing, Shanghai and Guangdong) average of Actual Cost per Operator Seat (as defined below) plus 10%, in each case, for the previous year.

The Actual Cost per Operator Seat comprises wages, administration expenses, operation and

maintenance expenses, depreciation of equipment and leasing for premises attributable to the customer services. The Actual Cost per Operator Seat in a certain area shall be the product of dividing the costs of Unicom Group providing 10010/10011 services (as confirmed in the audit report issued by an external audit firm) in the same region for the previous year by the average number of monthly operator seats of Unicom Group for the previous year. Such audit report and relevant supporting documents shall be provided to CUCL and its auditors.

(b) The number of effectively operating operator seats shall be determined in the following way: Unicom Group shall notify the number of operator seats of the previous month to CUCL before the tenth day of each month. CUCL shall confirm the number of effectively operating operator seats within five working days, based on the criteria as set out in the Service Standard for Telecommunications Operations (for Trial Implementation) published by the former Ministry of Information and Industry. The number of effectively operating operator seats will be subject to final confirmation by CUCL.

In addition, in January 2009, we completed our acquisition from Unicom Group of New Guoxin, which is mainly engaged in providing customer services and hotline services. As a result, this acquisition has eliminated our related party transactions with respect to customer services with New Guoxin.

Provision of Agency Services

Unicom Group (or its subsidiaries) agrees to provide subscriber development services to CUCL by telephone or through other channels by utilizing its paging network, equipment and operators.

The pricing standard for the agency fees for such services is that the agency fees chargeable to CUCL shall not exceed the average of agency fees chargeable by independent third-party agents providing subscriber development services to CUCL in the same regions.

Provision of Engineering Design and Technical Services

Unicom Group (or its subsidiaries) agrees to provide engineering design and technical services to CUCL based on their demands and requirements.

CUCL agrees to select the providers of engineering design services and technical services by way of public tender. Unicom Group agrees to ensure that it or its subsidiaries that provide such services shall possess qualifications and conditions that are not inferior to those of an independent third-party and shall participate in the tendering process on an equal footing with an independent third-party.

The engineering design and technical services provided by Unicom Group to CUCL shall not be less favorable than those similar services provided by an independent third-party to CUCL.

The pricing standard for the engineering design services shall be determined with reference to, but shall not be higher than, those set forth in the Standard Fees on Engineering, Exploration and Design Services promulgated and implemented by the original State Planning Commission and the Ministry of Construction in 2002 and other relevant national standards. In addition, such pricing standard shall not be higher than the one adopted by an independent third-party providing similar services in the same industry in the PRC.

The pricing standard for the technical services shall be determined with reference to, but shall not be higher than, those set forth in the Notice of the State Planning Commission Concerning Printing and Issuance of the Interim Provisions on the Consulting Fee for Front End Work of Construction Projects promulgated by the State Planning Commission in 1999 and other relevant national standards. In addition, such pricing standard shall not be higher than the one adopted by an independent third-party providing similar services in the same industry in the PRC.

In January 2009, we completed our acquisitions from Unicom Group of 100% of the equity interest in CITC and 100% of the equity interest in Unicom Xingye. CITC is engaged in, among other things, design and development

of information networks. Unicom Xingye is engaged in, among other things, research and design of SIM cards and other telephone cards in the PRC. As a result, these acquisitions will eliminate our related party transactions in the areas of research and development of information networks and telephone cards with CITC and Unicom Xingye.

Leasing of CDMA Network Capacity

Prior to our sale of CDMA business in 2008, we had leased all of the constructed CDMA network capacity from Unicom Group and operated these CDMA networks in our cellular service areas on an exclusive basis and received all revenue generated from the operation. We paid a lease fee of RMB 8.4 billion and RMB6.0 billion for 2007 and 2008, respectively. In addition to leasing network capacity, we also had the option, exercisable at any time during the lease period and for an additional year thereafter, to purchase the CDMA network in our cellular service areas. See A. History and Development of the Company Sale of CDMA Business, Merger with China Netcom and Related Transactions under Item 4.

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 the two-step voting mechanism described in A. History and Development of the Company Two-Step Voting Arrangements under Item 4, we completed our acquisitions, through CUCL, of certain telecommunications business and assets, including the telecommunications business across 21 provinces in southern China, from Unicom Group and Netcom Group pursuant to (1) an acquisition agreement entered into among Unicom Group, Netcom Group and the A Share Company on December16, 2008, under which the A Share Company agreed to acquire the relevant business and assets and (2) a transfer agreement entered into between the A Share Company and CUCL on December 16, 2008, under which the A Share Company agreed to transfer all of its rights and obligations under the acquisition agreement to CUCL. In addition, in order to operate the fixed-line business in the 21 provinces in southern China, CUCL entered into a network lease agreement with Unicom Group, Netcom Group and Unicom New Horizon. In connection with the lease, Unicom New Horizon also granted CUCL an option, but not an obligation, to purchase the telecommunications networks leased in southern China. See A. History and Development 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.

Mergers of Parent Companies and Subsidiaries

As part of our integration with China Netcom, our wholly-owned subsidiary, CUCL, merged with CNC China, a wholly-owned subsidiary of China Netcom, with effect from January 2009, and upon such 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, China Netcom s parent, Netcom Group, also merged with our parent, Unicom Group, with effect from January 2009, and upon such merger becoming effective, Unicom Group assumed all the rights and obligations of Netcom Group, and all the assets, liabilities and business of Netcom Group were vested in Unicom Group.

Certain Agreements Relating to Our Initial Public Offering

The Reorganization Agreement

In relation to the restructuring in connection with our initial public offering, our wholly-owned subsidiary, CUCL, entered into a reorganization agreement with Unicom Group, dated April 21, 2000. This agreement includes the following terms:

- Unicom Group s agreement to transfer to CUCL certain assets and liabilities;
- mutual warranties and indemnities given by Unicom Group and CUCL in relation to the assets and liabilities transferred to CUCL and in relation to the restructuring;
- undertakings by Unicom Group in favor of CUCL, including, among other things:

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to hold and maintain all licenses received from the former Ministry of Information Industry in connection with any of our businesses for our benefit, and to allocate spectrum and to provide other resources to us;

subject to applicable Chinese laws and regulations in effect at the relevant time, to take all actions necessary to obtain, maintain, renew and otherwise extend to or for our benefit such governmental or regulatory licenses, consents, permits or other approvals as we shall require to continue to operate our businesses;

to arrange for us to participate in its international roaming arrangements;

not to engage in any business that competes with our businesses, except for the existing competing businesses of Unicom Group;

to grant us a right of first refusal in relation to any governmental authorization, license or permit, or other business opportunity to develop any new telecommunications technology, product or service;

to ensure that we can continue to use the premises for which title documentation cannot be obtained at this time, for a period of three years following the restructuring;

not to dispose of any of our shares it beneficially owns or to take or permit any other actions, including primary issuances of securities by us or CUCL, which would result in us or CUCL no longer constituting majority-owned subsidiaries of Unicom Group; and

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;

an option granted by Unicom Group to us to acquire Unicom Group s interest in any telecommunications interest, such as Unicom Paging, Unicom Xingye and Unicom Group s CDMA telephony license and business; and

a commitment by Unicom Group that it will provide continuous financial support to us when necessary.

The new comprehensive services agreement entered into in 2008 provides that the determination of whether we or CUCL would constitute majority-owned subsidiaries of the Unicom Group shall be made in accordance with the PRC Enterprise Accounting Standards, as amended by the Ministry of Finance from time to time.

Trademark Agreement

Unicom Group is the registered owner of the Unicom trademark in English, the trademark bearing the Unicom logo and the trademark of the word Unicom in Chinese ( ), which are registered at the PRC State Trademark Bureau. Under a PRC trademark license agreement entered into on May 25, 2000 between Unicom Group and CUCL, CUCL and our affiliates were granted the right to use these trademarks on a royalty-free basis for an initial period of five years, renewable at the option of CUCL. Under the terms of this agreement, we and our affiliates are the exclusive licensees of these trademarks, provided that Unicom Group may also license these trademarks to any of its existing or future subsidiaries. Unicom Group also agreed to license to CUCL any trademark that it registers in China in the future that incorporates the word Unicom.

Our Roaming Arrangements

Prior to the acquisition of Unicom Guizhou, we and Unicom Group provided roaming services to each other. In addition, we made our long distance network available to Unicom Group in its implementation of its roaming

arrangements with other operators. CUCL previously entered into two services agreements with Unicom Group, dated May 25, 2000 and November 22, 2001, respectively, and each of Unicom New Century and Unicom New World previously entered into a services agreement with Unicom Group, dated November 20, 2002 and November 20, 2003, respectively. These four services agreements provided for our roaming arrangements with Unicom Group, under which charges for these roaming services between us and Unicom Group were based on our respective internal costs of providing these services, and would be on no less favorable terms than those available to any third-party. We received 50% of Unicom Group s international roaming revenue from third-party cellular international operators for calls using our long distance network.

Under the 2006 comprehensive services agreement between Unicom Group and us, the roaming fee arrangements between Unicom Group and us are as follows:

- The cellular subscribers using roaming services will pay roaming fees at the agreed rate of RMB0.60 per minute of roaming usage for both incoming and outgoing calls, based on the guidelines of the former Ministry of Information Industry.
  - If our cellular subscribers roam in the service areas of Unicom Group, we will be entitled to receive the roaming fees, which will be apportioned in the following way: (i) RMB0.40 per minute (the rate for local call charges under the guidelines of the former Ministry of Information Industry) will be paid to Unicom Group; and (ii) the remaining RMB0.20 per minute will be withheld by us;
  - If the cellular subscribers of Unicom Group roam in our service areas, Unicom Group will be entitled to receive the roaming fees, which will be apportioned in the following way: (i) RMB0.56 per minute will be paid to us; and (ii) RMB0.04 per minute will be withheld by Unicom Group; and
  - If our cellular business expands to cover all regions throughout the PRC, the arrangements set out above will be terminated automatically.
- If the network of a third-party cellular network operator is made available to the cellular subscribers of Unicom Group pursuant to the international roaming arrangements of Unicom Group, or if the network of Unicom Group is made available to the subscribers of any third-party cellular network operator pursuant to such arrangements, we will receive 50% of all roaming revenue to be received under such international roaming arrangements.

Prior to our acquisition of Unicom Guizhou, Unicom Guizhou operated the only CDMA cellular network of Unicom Group that we did not lease and the only GSM cellular network of Unicom Group. Upon the completion of such acquisition in December 2007, our cellular networks covered all regions in China and Unicom Group no longer operated any cellular networks in China. As a result of such acquisition, all transactions, including roaming arrangements, between Unicom Guizhou and us were eliminated and not treated as related party transactions retroactively. Similarly, the roaming arrangements for cellular networks between Unicom Group and us became no longer applicable. See A. History and Development of the Company Unicom Acquisitions and Sales under Item 4.

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

See Item 18 Financial Statements. Other than as disclosed elsewhere in this annual report, no significant change has occurred since the date of the annual financial statements.

Legal Proceedings

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We are not involved in any material litigation, arbitration or administrative proceedings. We are not aware of any pending or threatened litigation, arbitration or administrative proceedings expected to have a material effect on our financial condition and results of operations.

Policy on Dividend Distribution

The objective of our dividend policy is to achieve a long-term, sustainable and steadily increasing dividend, with a view to maximize our shareholders value. The declaration and payment of future dividends will depend upon, among other things, financial condition, business prospects, future earnings, cash flow, liquidity level and cost of capital. We believe such policy will provide our shareholders with a stable return in the long term along with the growth of our company. We may only pay dividends out of our distributable profits.

Based on the Company s financial position in 2009 and taking into account the development needs of the mobile and fixed-line broadband businesses, our board of directors recommended the payment of a final dividend of RMB0.16 per share for the year ended December 31, 2009, compared to RMB0.20 per share for the financial year ended December 31, 2008.

Item 9. The Offer and Listing

Market Price Information

Our ADSs, each representing ten ordinary shares, are listed and traded on the NYSE. Our ordinary shares are listed and traded on the HKSE. The NYSE and the HKSE are the principal trading markets for our ADSs and ordinary shares, which are not listed on any other exchanges in or outside the United States.

The high and low closing prices of our ordinary shares on the HKSE and of our ADSs on the NYSE since listing are as follows:

	Price per Ordinary Share (HK$)		Price per ADS (US$)	
	High	**Low**	**High**	**Low**
Annual:				
2003	8.00	3.92	10.55	5.02
2004	10.20	5.20	13.18	6.78
2005	7.20	5.65	9.19	7.30
2006	12.44	6.25	15.46	8.03
2007	18.80	9.18	24.52	11.75
2008	19.58	8.53	25.07	10.27
2009	12.34	6.84	15.75	8.72
Quarterly:				
First Quarter, 2008	19.58	14.70	25.07	19.96
Second Quarter, 2008	18.48	13.92	22.79	17.49
Third Quarter, 2008[(1)]	16.48	9.95	21.03	12.60
Fourth Quarter, 2008	12.04	8.53	15.52	10.27
First Quarter, 2009	10.86	6.84	14.06	8.72
Second Quarter, 2009	11.86	7.46	15.50	9.86
Third Quarter, 2009	12.34	9.91	15.75	12.61
Fourth Quarter, 2009	11.22	9.63	14.47	12.46
First Quarter, 2010	10.40	8.31	13.41	10.58
Monthly:				
December 2009	10.50	9.63	13.38	12.25
January 2010	10.40	8.64	13.41	10.99
February 2010	9.31	8.31	12.17	10.58

March 2010	9.89	8.74	12.60	10.97

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	Price per Ordinary Share (HK$)		Price per ADS (US$)	
	High	Low	High	Low
April 2010	9.82	8.84	12.22	11.19
May 2010	9.80	8.89	12.37	11.09
June 2010 (through June 17, 2010)	9.79	8.97	12.7	11.35

(1) Trading was suspended from May 23, 2008 to June 2, 2008 (including June 2, 2008) on the HKSE and on the NYSE.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

General

Under our Articles of Association, we have the capacity, rights, powers, liabilities and privileges of a natural person and, in addition to and without limiting the forgoing, we may do anything which is permitted or required to be done by any enactment or rule of law. The following is a summary of selected provisions of our Articles of Association:

Directors

Material Interests and Voting

A director shall not vote (or be counted in the quorum) on any resolution of our board of directors in respect of any contract or arrangement or proposal in which he or any of his associates (as defined in the HKSE Listing Rules) is, to his knowledge, materially interested, and if he shall do so, his vote shall not be counted (nor shall he be counted in the quorum for that resolution), but this prohibition does not apply to any contract, arrangement or other proposal for or concerning:

- the giving of any security or indemnity either (i) to the director or any of his associates (as defined in the HKSE Listing Rules) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of Unicom or any of its subsidiaries or (ii) to a third-party in respect of a debt or obligation of Unicom or any of its subsidiaries for which the director or any of his associates has assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

- an offer of shares or debentures or other securities of or by Unicom (or any other company which Unicom may promote or be interested in) where the director or any of his associates is or will be an interested participant in the underwriting or sub-underwriting of the offer;

- any contract or arrangement in which the director or any of his associates is interested in the same manner as other holders of shares or debentures or other securities of Unicom by virtue only of his interest in shares or debentures or other securities of Unicom;

any other company in which the director or any of his associates is interested only, whether directly or indirectly, as an officer or shareholder or in which the director or any of his associates is beneficially interested in shares of that company, provided that he, together with any of his associates, is not beneficially interested in 5% or more of (i) the issued shares of any class of such

company (or of any third company through which such interest is derived), or (ii) the voting rights attached to such issued shares or securities (excluding for the purpose of calculating such 5% interest, any indirect interest of such director or any of his associates by virtue of Unicom s interest in such company); or

the benefit of employees of Unicom or any of its subsidiaries, including (i) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to directors, their associates and employees of Unicom or any of its subsidiaries and does not provide in respect of the director or any of his associates any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; or (ii) the adoption, modification or operation of any employee share scheme involving the issue or grant of options over shares or other securities by Unicom to, or for the benefit of, the employees of Unicom or its subsidiaries under which the director or any of his associates may benefit.

Remuneration and Pensions

The directors of Unicom are entitled to receive by way of remuneration for their services such sum as is from time to time determined by Unicom in a general meeting. The directors are also entitled to have reimbursed all traveling, hotel and other expenses reasonably incurred by them in or about the performance of their duties as directors. The board of directors may grant special remuneration to any director who performs services that, in the opinion of the board, are outside the scope of the ordinary duties of a director.

The board may establish and maintain any contributory or non-contributory pension or superannuation funds for the benefit of, or give donations, gratuities, pensions, allowances or emoluments to, any persons (i) who are or were at any time in the employment or service of Unicom, or of any company which is a subsidiary of Unicom, or is allied or associated with Unicom or with any such subsidiary company, or (ii) who are or were at any time directors or officers of Unicom or of any such other company above, and have or who have had any salaried employment or had held office in Unicom or such other company, and the wives, widows, families and dependents of any such persons. The board may also establish and subsidize or subscribe to any institutions, associations, clubs or funds calculated to be for the benefit of or to advance the interests and well being of Unicom or of any such other company above or of any such persons above, and may make payments for or towards the insurance of any such persons, and subscribe or guarantee money for charitable or benevolent objects or for any exhibition or for any public, general or useful object. Any director holding any such employment or office is entitled to participate in, and retain for his own benefit, any such donation, gratuity, pension, allowance or emolument.

Borrowing Powers

The directors may exercise all the powers of Unicom to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of Unicom and to issue debentures, debenture stocks, bonds and other securities, whether outright or as collateral security for any debt, liability or obligation of Unicom or of any third-party.

Qualification of Directors

A director of Unicom is not required to hold any qualification shares.

Rotation of Directors

At every annual general meeting, one-third of the directors for the time being, or, if the number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation, except for any director holding office as chairman or chief executive officer. The directors to retire in every year shall be those who have been in office the longest since their last election. In addition, a director appointed by the board to fill in a casual vacancy or as an addition to the board shall retire at the next following annual general meeting and shall then be eligible for re-election, but shall not be taken into account in determining the number of directors who are to retire by rotation at each annual general meeting. The retiring directors shall be eligible for re-election.

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Rights Attached to Ordinary Shares

Voting Rights

Under the Companies Ordinance, any action to be taken by the shareholders at a general meeting requires an affirmative vote by either an ordinary or a special resolution passed at the meeting. An ordinary resolution is one passed by the majority of such shareholders as are entitled to, and do, vote in person or by proxy at a general meeting. A special resolution is one passed by not less than three-quarters of such shareholders as are entitled to, and do, vote in person or by proxy at a general meeting. Most shareholders decisions are passed by ordinary resolutions. However, the Companies Ordinance and our articles of association stipulate that certain matters may only be passed by special resolutions.

In accordance with the HKSE Listing Rules, any vote of shareholders at a general meeting will be taken by poll.

In a poll, every shareholder present in person or, if the shareholder is a corporation, by duly authorized representative, or by proxy has one vote for every share of which he or she is the shareholder, and which is fully paid up or credited as fully paid up. However, no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Any action to be taken by the shareholders requires the affirmative vote of a majority of the shares at a meeting of shareholders. There are no cumulative voting rights. Accordingly, the holders of a majority of the shares voting for the election of directors can elect all the directors if they choose to do so.

Issue of Shares

Under the Companies Ordinance, our board of directors may, without prior approval of our shareholders, offer to issue new shares to existing shareholders proportionately according to their shareholdings. Our board of directors may not offer to issue new shares in any other manner without the prior approval of our shareholders at a general meeting. Any such approval given at a general meeting will continue in force until the conclusion of the following annual general meeting or the expiration of the period within which the next annual general meeting is required by law to be held or when revoked or varied by an ordinary resolution of our shareholders in a general meeting, whichever comes first. If such approval is given, the unissued shares shall be at the disposal of our board of directors, which may offer, allot, grant options over or otherwise dispose of them to such persons at such times and for such consideration and upon such terms and conditions as our board of directors may determine.

In accordance with the HKSE Listing Rules, any such approval given by the shareholders must be limited to shares with an aggregate nominal value not exceeding 20 per cent of the aggregate nominal value of our share capital in issue plus the aggregate nominal amount of share capital repurchased by us since the granting of such approval.

Dividends

Subject to the Companies Ordinance and as set out in our articles of association, our shareholders at a general meeting may from time to time by ordinary resolution declare dividends to be paid to our shareholders according to their rights and interests in the profits available for distribution, but no dividend shall be declared in excess of the amount recommended by our board of directors.

In addition to any dividends declared at a general meeting upon the recommendation of the board of directors, our board of directors may, as they deem appropriate, from time to time resolve to pay to our shareholders such interim dividends as appear to our board of directors to be justified by our financial position. Our board of directors may also pay any fixed dividend that is payable on any of our shares on any other dates, whenever our financial position, in the opinion of our board of directors, justifies such payments.

All dividends or bonuses unclaimed for one year after having become payable may be invested or otherwise made use of by the board for the benefit of Unicom until claimed. All dividends or bonuses unclaimed for six years

after having been declared may be forfeited by the board and will revert to Unicom.

Winding Up

If we are wound up, the surplus assets remaining after payment to all creditors shall be divided among the shareholders in proportion to the capital paid up on the shares held by them, subject to the rights of the holders of any shares that may be issued on special terms or conditions.

If we are wound up, the liquidator may, with the sanction of a special resolution, divide among our shareholders in specie or in kind the whole or any part of our assets or vest any part of our assets in trustees upon such trusts for the benefit of our shareholders or any of them as the resolution shall provide.

Miscellaneous

Shareholders are not entitled to any redemption rights, conversion rights or preemptive rights on the transfer of ordinary shares.

The transfer agent and registrar for the shares is Hong Kong Registrars Limited, 46th Floor, Hopewell Centre, 183 Queen s Road East, Hong Kong.

Modification of Rights

Subject to the Companies Ordinance, any of the rights from time to time attaching to any class of shares may, subject to the provisions of the Companies Ordinance, be varied or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of shares of that class. The provisions of our Articles of Association relating to general meetings apply to such separate general meetings, except that the necessary quorum is not less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class, and that any holder of the shares of the class present in person or by proxy may demand a poll.

Annual General and Extraordinary General Meetings

We must hold in each year a general meeting as our annual general meeting in addition to any other meetings in that year. The annual general meeting is held at such time (within a period of not more than fifteen months, or such longer period as the Registrar of Companies of Hong Kong may authorize in writing, after the holding of the last preceding annual general meeting) and place as may be determined by the board of directors. All other general meetings are called extraordinary general meetings. The board of directors may call an extraordinary general meeting at any time or upon request in accordance with the Hong Kong Companies Ordinance.

Subject to the Companies Ordinance and the HKSE Listing Rules, an annual general meeting and a meeting called for the passing of a special resolution can be called by not less than 21 days notice in writing, and any other general meeting can be called by not less than fourteen days notice in writing. The notice must specify the place, date and time of the meeting, and, in the case of special business, the general nature of that business. The HKSE Listing Rules provide that notice shall be given to shareholders at least 20 clear business days before an annual general meeting and at least 10 clear business days before all other general meetings.

Limitations on Rights to Own Securities

There are no limitations on the rights to own securities, including the rights of non-resident or foreign shareholders to hold or exercise voting rights on the securities, imposed by Hong Kong law or by our Memorandum of Association or our Articles of Association.

Changes in Capital

We may exercise any powers conferred or permitted by the Companies Ordinance to purchase or otherwise

acquire our own shares and warrants at any price or to give, directly or indirectly, by means of a loan, guarantee, the provision of security or otherwise, financial assistance for the purpose of or in connection with a purchase made by any person of any shares or warrants in Unicom. Repurchases of our own shares may be made either by way of a general offer to all shareholders in proportion to their shareholdings, by purchasing our shares on a stock exchange or by an off-market contract with individual shareholders. Any such purchase or other acquisition or financial assistance must be made or given in accordance with any relevant rules or regulations issued by the HKSE or the Securities and Futures Commission of Hong Kong.

We may, in a general meeting, from time to time, by ordinary resolution increase our authorized share capital by the creation of new shares, and prescribe the amount of new capital and number of new shares. We may, from time to time, by ordinary resolution:

- consolidate and divide all or any of our share capital into shares of a larger amount than our existing shares;
- divide our shares into several classes and attach to them any preferential, deferred, qualified or special rights, privileges or conditions;
- cancel any shares that at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of our share capital by the amount of the shares so cancelled;
- sub-divide our shares or any of them into shares of a smaller amount than is fixed by our Memorandum of Association, subject nevertheless to the provisions of the Companies Ordinance; and
- make provision for the issue and allotment of shares which do not carry any voting rights.

Miscellaneous

We keep our share register with our share registrar, which is Hong Kong Registrars Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen s Road East, Wanchai, Hong Kong. In addition, we also file certain documents with the Registrar of Companies, Hong Kong, in accordance with the requirements of the Companies Ordinance. Our company number is 703499.

C. Material Contracts

In addition to the contracts described in B. Related Party Transactions under Item 7, Unicom Group, we or our subsidiaries have entered into the following contracts that are not in the ordinary course of business within the two years preceding the date of this annual report that are or may be material:

- CDMA Business Framework Agreement among us, CUCL and China Telecom, dated June 2, 2008, relating to the sale of our CDMA business and its related assets and liabilities to China Telecom;
- CDMA Business Disposal Agreement among us, CUCL and China Telecom, dated July 27, 2008, relating to the sale of our CDMA business and its related assets and liabilities to China Telecom; and
- Merger Agreement between CUCL and CNC China, dated October 15, 2008, relating to the merger between CUCL and CNC China.
- Share subscription agreement between us and Telefónica, dated September 6, 2009, relating to the mutual investment of an equivalent of US$1 billion by the parties in each other.

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Strategic Alliance Agreement between us and Telefónica, dated September 6, 2009, relating to strengthening the business of each of the companies by cooperation based on the network, business model and experience of each other.

Irrevocable Offer by SK Telecom, dated September 25, 2009, to the Company, for the sale of our shares held by SK Telecom to us.

Irrevocable voting undertaking from China Netcom Group Corporation (BVI) Limited in favor of SK Telecom, dated September 25, 2009.

Share Repurchase Agreement, dated November 3, 2009, entered into between the Company and SK Telecom.

Amendment Agreement to Share Repurchase Agreement, dated November 3, 2009, entered into between the Company and SK Telecom.

D. Exchange Controls

The ability of our operating subsidiary, CUCL, to satisfy its foreign exchange obligations and to pay dividends to us depends on existing and future exchange control regulations in China. Under the current relevant regulations, Renminbi is convertible under the current account, which includes trade-and service-related foreign exchange transactions, but is not convertible under the capital account, which includes foreign direct investment. CUCL, our wholly-owned subsidiary that holds substantially all of our assets, is a foreign investment enterprise. The foreign investment enterprise status will allow it to purchase foreign exchange at designated foreign exchange banks for settlement of current account transactions without the approval of the State Administration For Foreign Exchange of the PRC, or the SAFE. These current account transactions include payment of dividends. However, the relevant PRC Government authorities may in the future limit or eliminate the authorizations for a foreign investment enterprise to retain its foreign exchange to satisfy its foreign exchange obligations or to pay dividends in the future. Furthermore, certain foreign exchange transactions of CUCL under the capital account still require approvals from the SAFE. This requirement affects our subsidiary s ability to obtain foreign exchange through equity financing, including by means of capital contributions from us.

Under existing Hong Kong law, (i) there are no foreign exchange controls or other laws that restrict the import or export of capital and that would affect the availability of cash and cash equivalents for our use, (ii) there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of interest, dividends or other payments on our outstanding debt and equity securities to U.S. residents and (iii) there are no limitations on the rights of non-resident or foreign owners to hold our debt or equity securities.

E. Taxation

The taxation of income and capital gains of holders of ordinary shares or ADSs is subject to the laws and practices of the PRC, Hong Kong and jurisdictions in which holders of ordinary shares or ADSs are resident or otherwise subject to tax. The following summary of certain relevant taxation provisions is based on current law and practice, is subject to change and does not constitute legal or tax advice. The discussion does not deal with all possible tax consequences relating to an investment in the ordinary shares or ADSs. In particular, the discussion does not address the tax consequences under state, local and other laws, such as non-PRC, non-Hong Kong and non-U.S. federal laws. The discussion is based upon laws and relevant interpretations in effect as of the date of this annual report.

People s Republic of China

This section describes certain PRC tax consequences of the ownership and disposition of our ordinary shares or ADSs. This section does not address all possible PRC tax considerations that may be relevant to an investment in our ordinary shares or ADSs in light of an investor s specific circumstances, and is based on PRC tax laws and relevant interpretations as in effect as of the date of this annual report on Form 20-F, which are subject to change,

possibly with retroactive effect. Accordingly, each prospective investor should consult its own tax advisor regarding the PRC and other tax consequences of an investment in our ordinary shares or ADSs applicable under its particular circumstances.

Taxation of Dividends

Under the PRC Enterprise Income Tax, or the EIT, Law and its implementing rules that became effective on January 1, 2008, a non-resident enterprise is generally subject to PRC enterprise income tax with respect to PRC-sourced income, including dividends received from an enterprise that is domiciled in the PRC. The PRC enterprise income tax with respect to such dividends is currently required to be withheld at the rate of 10%, unless there is an applicable tax treaty between the PRC and the jurisdiction in which such non-resident enterprise resides that reduces or exempts the tax.

On April 22, 2009, the PRC State Administration of Taxation, or the SAT, issued the Notice Regarding the Determination of Tax Residence Status of Chinese-Controlled Offshore-Incorporated Enterprises on the Basis of De Facto Management Bodies, or the 2009 Notice, which was retroactively effective as of January 1, 2008. Pursuant to the 2009 Notice, an enterprise incorporated under the laws of a jurisdiction outside the PRC but controlled by a PRC enterprise or enterprise group may be determined to be a PRC resident enterprise with its de facto management bodies located within the PRC for PRC tax purposes if certain criteria specified under the 2009 Notice are met. Under the 2009 Notice, dividends paid by such an enterprise are deemed to be PRC-sourced income and subject to PRC enterprise income tax. Subject to the official determination by relevant PRC tax authorities, we expect that we will be determined to be a PRC resident enterprise for PRC tax purposes under the EIT Law, its implementing rules and the 2009 Notice and, as a result, to be required to withhold the 10% EIT when we distribute dividends to our non-resident enterprise shareholders.

Accordingly, we withheld the 10% EIT when we distributed our final dividend for our financial year ended December 31, 2009 in respect of the non-resident enterprise shareholders for PRC tax purposes whose names appeared on our register of members as of the record date for such dividends, and who were not individuals, unless such non-individual shareholders are able to provide documents from the relevant PRC tax authorities confirming that we are not required to withhold the 10% EIT in respect of the dividends that such shareholders are entitled to, on the basis that dividend income between two PRC resident enterprises is exempted from enterprise income tax, subject to certain conditions, under the EIT Law. In addition, certain investors hold our shares or ADSs through custodians, nominees, corporate trustees or other intermediaries and the names of these investors do not appear on our register of members. Payments of dividends to such investors are also subject to the 10% EIT withholding. These investors should enquire about the relevant procedures with the relevant custodians, nominees, trustees or other intermediaries if they wish to change the identities of the shareholders on our register of members.

Taxation of Capital Gains

Under the new PRC income tax law, a non-resident enterprise is generally subject to PRC enterprise income tax with respect to PRC-sourced income. Because the new EIT Law has only recently taken effect, there remain substantial uncertainties as to its interpretation and application by the relevant PRC tax authorities. We intend to comply with any interpretation or notice in relation to the taxation of capital gains issued by the PRC tax authorities in the future.

Additional PRC Tax Considerations

Stamp duty. Under the Provisional Regulations of the PRC Concerning Stamp Duty and its implementing rules, both of which became effective on October 1, 1988, PRC stamp duty should not apply to acquisitions or dispositions of our ordinary shares or ADSs outside of the PRC as the PRC stamp duty is imposed only on documents executed or received within the PRC that are legally binding in the PRC and protected under PRC law.

Estate tax. The PRC does not currently levy estate tax.

Hong Kong

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Taxation of Dividends

Under the current practices of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in connection with dividends paid by us, either by withholding or otherwise, unless such dividends are attributable to a trade, profession or business carried on in Hong Kong.

Profits

No tax is imposed in Hong Kong in respect of capital gains from the sale of shares and ADSs. Trading gains from the sale of shares or ADSs by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong income tax rates of 16.5% on corporations and 15.0% on individuals. Gains from sales of shares effected on the HKSE will be considered to be derived from or arise in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of shares or ADSs realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

Hong Kong stamp duty, currently charged at the rate of 0.1% of the higher of the consideration for or the value of the shares, will be payable by the purchaser on every purchase and by the seller on every sale of shares. In addition, a fixed duty of HK$5 is currently payable on any instrument of transfer of shares. If one of the parties to the sale is a non-resident of Hong Kong and does not pay the required stamp duty, the duty not paid will be assessed on the instrument of transfer (if any) and the transferee will be liable for payment of such duty.

The withdrawal of shares upon the surrender of American Depository Receipts, or ADRs, and the issuance of ADRs upon the deposit of shares, will also attract stamp duty at the rate described above unless such withdrawal or deposit does not result in a change in the beneficial ownership of the shares under Hong Kong law. The issuance of the ADRs upon the deposit of shares issued directly to The Bank of New York, as depositary of the ADSs, or for the account of The Bank of New York does not attract stamp duty. No Hong Kong stamp duty is payable upon the transfer of ADSs outside Hong Kong.

Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 became effective on February 11, 2006 in Hong Kong. No Hong Kong estate duty is payable and no estate duty clearance papers are needed for an application for a grant of representation in respect of a holder of the shares whose death occurs on or after February 11, 2006.

United States

United States Federal Income Taxation

This section describes the material United States federal income tax consequences to a U.S. holder (as defined below) of owning shares or ADSs. It applies to you only if you hold your shares or ADSs as capital assets for tax purposes. This section does not apply to you if you are a member of a special class of holders subject to special rules, including:

- a dealer in securities or currencies,
- a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
- a tax-exempt organization,
- an insurance company,

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- a person liable for alternative minimum tax,
- a person that actually or constructively owns 10% or more of our voting stock,
- a person that holds shares or ADSs that are a hedge or as part of a straddle or a conversion transaction, or
- a person whose functional currency is not the U.S. dollar.

This section is based on the Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing and proposed regulations, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis. In addition, this section is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

You are a U.S. holder if you are a beneficial owner of shares or ADSs and you are:

- a citizen or resident of the United States,
- a corporation organized under the laws of the United States, any States thereof, or the District of Columbia,
- an estate whose income is subject to United States federal income tax regardless of its source, or
- a trust if a United States court can exercise primary supervision over the trust s administration and one or more United States persons are authorized to control all substantial decisions of the trust.

If a partnership holds the shares or ADSs, the United States federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. A partner in a partnership holding the shares or ADSs should consult its tax advisor with regard to the United States federal income tax treatment of its investment in the shares or ADSs.

You should consult your own tax advisor regarding the United States federal, state and local tax consequences of owning and disposing of shares and ADSs in your particular circumstances.

This discussion addresses only United States federal income taxation.

In general, taking into account the earlier assumptions, for United States federal income tax purposes, if you hold ADRs evidencing ADSs, you will be treated as the owner of the shares represented by those ADSs. Exchanges of shares for ADSs, and ADSs for shares, generally will not be subject to United States federal income tax.

Taxation of Dividends

Under the United States federal income tax laws, and subject to the passive foreign investment company rules discussed below, if you are a U.S. holder, the gross amount of any dividend we pay out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes) is subject to United States federal taxation. If you are a non-corporate U.S. holder, dividends paid to you in taxable years beginning before January 1, 2011 that constitute qualified dividend income will be taxable to you at a maximum tax rate of 15%, provided that you hold the shares or ADSs for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date and meet other holding period requirements. Dividends we pay with respect to the shares or ADSs will be qualified dividend income, provided that, in the year that you receive the dividend, the shares or ADSs are readily tradable on an established securities market in the United States.

The dividend is taxable to you when you, in the case of shares, or the Depositary, in the case of ADSs, receive

the dividend, actually or constructively. The dividend will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution that you must include in your income as a U.S. holder will be the U.S. dollar value of the Hong Kong Dollar payments made, determined at the spot Hong Kong/U.S. dollar rate on the date the dividend distribution is includible in your income, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date you include the dividend payment in income to the date you convert the payment into U.S. dollars will be treated as ordinary income or loss and will not be eligible for the special tax rate applicable to qualified dividend income. The gain or loss generally will be income or loss from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a non-taxable return of capital to the extent of your basis in the shares or ADSs and thereafter as capital gain.

Special rules apply in determining the foreign tax credit limitation with respect to dividends that are subject to the maximum 15% tax rate. Dividends will be income from sources outside the United States and, depending on your circumstances, will be either passive income or general income for purposes of computing the foreign tax credit allowable to you. If you are subject to PRC withholding tax (as discussed in People s Republic of China Taxation of Dividends, above), you must include any such tax withheld from the dividend payment in your gross income, even though you do not in fact receive it. The PRC tax withheld and paid over to the PRC will be creditable against your United States federal income tax liability. To the extent a refund of the tax withheld is available under PRC law, the amount of tax withheld that is refundable will not be eligible for credit against your United States federal income tax liability.

Taxation of Capital Gains

Subject to the passive foreign investment company rules discussed below, if you are a U.S. holder and you sell or otherwise dispose of your shares or ADSs, you will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount that you realize and your tax basis, determined in U.S. dollars, in your shares or ADSs. Capital gain of a non-corporate U.S. holder is generally taxed at preferential rates where the property is held for more than one year. Subject to the paragraph immediately below regarding gain subject to PRC tax, the gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes. Your ability to deduct capital losses is subject to limitations. Any Hong Kong stamp duty that you pay will not be a creditable tax for United States federal income tax purposes, but you may be able to deduct such stamp duty subject to limitations under the Code.

However, in the event we are deemed to be a Chinese resident enterprise under PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. Under that treaty, if PRC tax were to be imposed on any gain from the disposition of your shares or ADSs (as discussed above in People s Republic of China Taxation of Capital Gains), the gain may be treated as PRC source income. U.S. Holders should consult their tax advisors regarding the tax consequences if a foreign withholding tax is imposed on a disposition of shares or ADSs, including the availability of the foreign tax credit under your particular circumstances.

Passive Foreign Investment Company Rules. We believe that we should not be treated as a passive foreign investment company, or PFIC, for United States federal income tax purposes, but this conclusion is a factual determination that is made annually and thus may be subject to change.

In general, if you are a U.S. holder, we will be a PFIC with respect to you if for any taxable year in which you held our ADSs or shares:

- at least 75% of our gross income for the taxable year is passive income; or
- at least 50% of the value, determined on the basis of a quarterly average, of our assets is attributable to assets that produce or are held for the production of passive income.

Passive income generally includes dividends, interest, royalties, rents (other than certain rents and royalties

derived in the active conduct of a trade or business), annuities and gains from assets that produce passive income. If a foreign corporation owns, directly or indirectly, at least 25% by value of the stock of another corporation, the foreign corporation is treated for purposes of the PFIC tests as owning its proportionate share of the assets of the other corporation, and as receiving directly its proportionate share of the other corporation s income.

If we are treated as a PFIC and you are a U.S. holder that does not make a mark-to-market election, as described below, you will be subject to special rules with respect to:

- any gain you realize on the sale or other disposition of your shares or ADSs; and
- any excess distribution that we make to you (generally, any distributions to you during a single taxable year that are greater than 125% of the average annual distributions received by you in respect of the shares or ADSs during the three preceding taxable years or, if shorter, your holding period for the shares or ADSs).

Under these rules:

- the gain or excess distribution will be allocated ratably over your holding period for the shares or ADSs;
- the amount allocated to the taxable year in which you realized the gain or excess distribution will be taxed as ordinary income;
- the amount allocated to each prior year, with certain exceptions, will be taxed at the highest tax rate in effect for that year; and
- the interest charge generally applicable to underpayments of tax will be imposed in respect of the tax attributable to each such year.

Special rules apply for calculating the amount of the foreign tax credit with respect to excess distributions by a PFIC.

If you own shares or ADSs in a PFIC that are treated as marketable stock, you may make a mark-to-market election. If you make this election, you will not be subject to the PFIC rules described above. Instead, in general, you will include as ordinary income each year the excess, if any, of the fair market value of your shares or ADSs at the end of the taxable year over your adjusted basis in your shares or ADSs. You will also be allowed to take an ordinary loss in respect of the excess, if any, of the adjusted basis of your shares or ADSs over their fair market value at the end of the taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election). Your basis in the shares or ADSs will be adjusted to reflect any such income or loss amounts. Your gain, if any, recognized upon the sale of your shares or ADSs will be taxed as ordinary income.

In addition, notwithstanding any election you make with regard to the shares or ADSs, dividends that you receive from us will not constitute qualified dividend income to you if we are a PFIC either in the taxable year of the distribution or the preceding taxable year. Moreover, your shares or ADSs will be treated as stock in a PFIC if we were a PFIC at any time during your holding period in your shares or ADSs, even if we are not currently a PFIC. For purposes of this rule, if you make a mark-to-market election with respect to your shares or ADSs, you will be treated as having a new holding period in your shares or ADSs beginning on the first day of the first taxable year beginning after the last taxable year for which the mark-to-market election applies. Dividends that you receive that do not constitute qualified dividend income, are not eligible for taxation at the 15% maximum rate applicable to qualified dividend income. Instead, you must include the gross amount of any such dividend paid by us out of our accumulated earnings and profits (as determined for United States federal income tax purposes) in your gross income, and it will be subject to tax at rates applicable to ordinary income.

If you own shares or ADSs during any year that we are a PFIC, you must file Internal Revenue Service Form

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F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

You can read and copy documents referred to in this annual report that have been filed with the U.S. Securities and Exchange Commission at the SEC s public reference room located at 100 Fifth Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms and their copy charges. The SEC also maintains a web site at http://www.sec.gov that contains reports, proxy statements and other information regarding registrants that are filed electronically with the SEC.

The SEC allows us to incorporate by reference the information we file with the SEC. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this annual report on Form 20-F.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risks

Our exposure to financial market risks relates primarily to changes in interest rates and currency exchange rates.

Interest Rate Risk

The People s Bank of China has the sole authority in China to establish the official interest rates for Renminbi-denominated loans. Financial institutions in China set their effective interest rates within the range established by the People s Bank of China. Interest rates and payment methods in the PRC on loans denominated in foreign currencies are set by the financial institutions based on interest rate changes in the international financial market, cost of funds, risk levels and other factors. The fair value of our borrowings is approximately the same as the carrying value. These bank loans, denominated in Renminbi, are borrowed from domestic banks at interest rates that vary in accordance with the standard guidance interest rates announced by relevant PRC Government authorities.

We are subject to risks arising from interest-bearing borrowings, including bank loans, corporate bonds, commercial paper and related party loans. The majority of our interest-bearing borrowings are loans from banks in the PRC, the majority of which bear fixed interest rates. A rise in interest rates will increase the cost of new borrowings and interest expenses of outstanding floating rate debt. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of these instruments, and, therefore, could have a material adverse effect on our financial position. To mitigate our exposure to interest rate risks in connection with our borrowings denominated in foreign currencies, we may enter into designed interest rate swap agreements from time to time in the future.

As of December 31, 2009, we had approximately RMB62.93 billion (2008: approximately RMB28.88 billion) of bank loans, commercial paper and corporate bonds at fixed rates and approximately RMB10.91 billion of bank loans and related party loans at floating rates (2008: approximately RMB1.11 billion).

The following table provides information, by maturity date, regarding our interest rate-sensitive financial instruments, which consist of short-term and long-term debt obligations, as well as the expected maturity profile of

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such obligations as of December 31, 2009.

	Expected Maturity							As of December 31, 2009 Fair Value
	2010	2011	2012	2013	2014	Thereafter	Total	
	(RMB equivalent in millions, except interest rates)							
Liabilities:								
RMB-denominated loans								
Fixed rate	55,104						55,104	55,104
Average rate [1]	1.50%							
HK dollar-denominated loans								
Variable rate	10,909						10,909	10,909
Average rate	0.43%							
U.S. dollar-denominated loans								
Fixed rate	31	29	26	26	26	356	494	340
Average rate	0.07%	0.06%	0.06%	0.05%	0.05%	0.01%		
Euro-denominated loans								
Fixed rate	31	28	28	28	28	184	327	274
Average rate	0.23%	0.23%	0.21%	0.19%	0.16%	0.09%		

(1) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2009.

For the year ended December 31, 2009, if interest rates on the floating rate borrowings had been 10% higher/lower while all other variables were held constant, our interest expenses would have increased/decreased by approximately RMB3 million (2008: approximately RMB125 million).

Exchange Rate Risk

We conduct our business primarily in Renminbi, which is also our functional and reporting currency. The Renminbi is not a fully convertible currency. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On July 21, 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the U.S. dollar. The PRC Government has since made and in the future may make further adjustments to the exchange rate system. Fluctuations in exchange rates may adversely affect the value, translated or

converted into United States dollars or Hong Kong dollars (which are pegged to the U.S. dollar), of our net assets, earnings and any declared dividends. For a detailed description of the unitary managed floating rate system used by the PRC Government to set foreign exchange rates, see Key Information Selected Financial Data Exchange Rate Information under Item 3.

We are exposed to foreign currency risk primarily as a result of our foreign currency borrowings for past purchases of telecommunications equipment from overseas suppliers. In addition, we receive some of our revenues from our international operations and pay-related expenses in foreign currencies. As a result, our foreign currency exposure relates to our foreign currency-denominated debt and, to a limited extent, cash and cash equivalents denominated in foreign currencies.

As of December 31, 2009, we had cash and cash equivalents and short-term bank deposits denominated in foreign currencies amounting to RMB1.55 billion (2008: approximately RMB1.32 billion). As of December 31, 2009, we had borrowings denominated in foreign currencies amounting to RMB11.73 billion (2008: approximately RMB1.10 billion).

The following table provides information regarding our foreign currency-sensitive financial instruments,

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which consist of cash and cash equivalents, short-term bank deposits, short-term and long-term debt obligations and capital commitments as of December 31, 2009 and the expected maturity profile of these debt obligations and capital commitments.

	Expected Maturity							As of December 31, 2009
	2010	2011	2012	2013	2014	Thereafter	Total	Fair Value
	(RMB equivalent in millions)							
Assets:								
Cash and cash equivalents								
U.S. dollars	585						585	585
HK dollars	285						285	285
Japanese yen	1						1	1
EURO dollars	258						258	258
GBP	4						4	4
Short-term bank deposits								
U.S. dollars	336						336	336
HK dollars	76						76	76
Liabilities:								
U.S. dollar-denominated loans	31	29	26	26	26	356	494	340
Euro-denominated loans	31	28	28	28	28	184	327	274
HK dollars-denominated loans	10,909						10,909	10,909
Off-balance sheet commitments:								
Capital commitments authorized and contracted for in U.S. dollars								

If the RMB had strengthened/weakened by 10% against the foreign currencies, relative to December 31, 2009, primarily with respect to US dollars, HK dollars and Euro, while all other variables were held constant, we would have recognized additional exchange gains/losses of approximately RMB1.02 billion (2008: exchange losses/gains of approximately RMB0.02 billion) for foreign currencies-denominated cash and cash equivalents, short-term bank deposits and bank loans.

Risk Relating to Available-for-Sale Financial Assets

The investments we hold are classified in the consolidated balance sheet as available-for-sale financial assets. These investments are subject to equity price risk, which results primarily from changes in the level or volatility of underlying equity prices. One of our significant investments is denominated in Euro and the fair value of such investment is also subject to risks associated with fluctuations of foreign exchange rate between Euro and Renminbi (our functional currency). If either (i) the share price of our invested equity securities (in Euro) had increased/decreased by 10% or (ii) the exchange rate between Euro and Renminbi had increased/decreased by 10%, in each case, relative to December 31, 2009, while all other variables are held constant, we would have reversed the recognized losses or recognized additional losses of approximately RMB584.18 million, net of tax, in our available-for-sale fair value reserve. In particular, we noticed that recently there have been significant fluctuations in Euro foreign exchange reference rates primarily due to deteriorating economic conditions and credit risks in certain eurozone countries. As of May 31, 2010, the change in the foreign exchange rate between Euro and Renminbi and, the change of the underlying equity price denominated in Euro, to a lesser extent, resulted in a depreciation of the fair value of our relevant investment by over 30%, from December 31, 2009. If Euro-related uncertainty remains, we may suffer from further loss in the fair value of our investments denominated in Euro and our financial condition may be materially adversely affected.

Item 12. Description of Securities Other than Equity Securities

The Bank of New York Mellon, as the depositary of our ADSs, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal. The depositary

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collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

ADR holders must pay:	For:
US$5.00 (or less) per 100 ADRs (or portion thereof)	Each issuance of an ADR, including as a result of a distribution of shares or rights or other property Each cancellation of an ADR, including if the deposit agreement terminates Each distribution of securities, other than shares or ADRs, treating the securities as if they were shares for purpose of calculating fees
US$0.02 (or less) per ADR	Any cash distribution (not including cash dividend distribution)
Registration or transfer fees	Transfer and registration of shares on the share register of our transfer agent and the registrar in Hong Kong from an ADR holder s name to the name of the depositary or its agent when the ADR holder deposits or withdraws shares
Expenses of the depositary	Conversion of Hong Kong dollars to U.S. dollars Cable, telex and facsimile transmission expenses Servicing of the shares or deposited securities
Taxes and other governmental charges the depositary or the custodian has to pay on any ADR or share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary

From January 1, 2009 to December 31, 2009, we received from the Bank of New York Mellon a total of US$316,361, net of withholding tax, reimbursement for the expenses we incurred, including but not limited to, annual stock exchange listing fee, investor relations reimbursement, non-standard out-of-pocket maintenance costs for the ADR, charges incurred in connection with services provided for by third party vendors, charges and out-of-pocket expenses for the servicing of non-registered holders. The Bank of New York Mellon also waived certain costs of US$141,839 in connection with the administration of the ADR program, investor relationship programs (including investor relationship intelligence services) and other services provided to our registered shareholders. In addition, the Bank of New York Mellon has agreed to reimburse us annually for our expenses incurred in connection with administration and maintenance of the depositary receipt facility in the future. The amount of such reimbursements is subject to certain limits and conditions.

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PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act of 1934, as amended) as of December 31, 2009, the end of the period covered by this annual report, have concluded that, as of such date, our disclosure controls and procedures were effective.

Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act of 1934, as amended) for the Company. Our internal control over financial reporting is a process designed under the supervision of our chief executive officer and chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with applicable generally accepted accounting principles. Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with applicable generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and our directors; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As of December 31, 2009, our management conducted an assessment of the effectiveness of our internal control over financial reporting, based on the framework established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on this assessment, our management has concluded that our Company s internal control over financial reporting as of December 31, 2009 was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2009, has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report appearing on page F2.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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We are fully aware of the importance of maintaining and improving our controls and procedures in relation to internal control over financial reporting. Our management, with the oversight of our audit committee and board of directors, is committed to having proper internal control over financial reporting.

Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. Wong Wai Ming is an audit committee financial expert in accordance with the terms of Item 16.A of Form 20-F. Mr. Wong satisfies the independence requirements of Section 303A of the NYSE Manual. For Mr. Wong s biographical information, see A. Directors and Senior Management under Item 6.

Item 16B. Code of Ethics

In 2003, we adopted a code of ethics that applies to our chief executive officer, chief financial officer, president, vice-presidents, controller and other senior officers. A copy of our Code of Ethics for Senior Officers was filed as Exhibit 11.1 to our annual report on Form 20-F for the fiscal year ended December 31, 2003. In February 2006, we adopted another code of ethics that applies to our employees generally. A copy of our Code of Ethics for Employees is filed as Exhibit 11.2 to our annual report on Form 20-F for the fiscal year ended December 31, 2005. Copies of our Code of Ethics for Senior Officers and Code of Ethics for Employees may also be downloaded from our website at http://www.chinaunicom.com.hk. Information on that website is not a part of this annual report on Form 20-F.

Item 16C. Principal Accountant Fees and Services

The following table sets forth the aggregate audit fees, audit-related fees, tax fees and other fees our principal accountant billed for products and services they provided for audit services, audit-related services, tax services and other services for each of the fiscal years 2008 and 2009:

	For the Year Ended December 31,	
	2008	**2009**
	(in RMB thousands)	
Audit services	106,850	73,200
Audit-related services	23,347	2,200
Tax services	111	560
Other	165	472
Total	130,473	76,432

Audit services include the standard audit work that needs to be performed each year in order to issue an opinion on the consolidated financial statements of the Company and its subsidiaries. Audit services in 2008 and 2009 also include audit work in connection with the audit of the Company s internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. They also include performing agreed-upon procedures on quarterly financial statements and pre-issuance reviews of interim financial statements.

Audit-related services include other assurance and related services that can be reasonably provided by the independent auditor. In 2009, audit-related services mainly include the agreed-upon procedures in relation to the circular regarding the off-market repurchase of the Company s shares from SK Telecom Co., Ltd. and certain internal control review services.

Tax services include the assistance with compliance and filing of income taxes.

Other services include providing subsidiaries of the Company with permitted advisory service on human resources system, translation service and providing the Company with access to an online database of global financial reporting literature regarding new pronouncements and guidance.

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Audit Committee s Pre-approval Policies and Procedures

The Audit Committee of our Board of Directors is responsible, among other things, for the oversight of the external auditor subject to the requirements of the Hong Kong Companies Ordinance and our Articles of Association. The Audit Committee has adopted a policy regarding pre-approval of audit and permissible non-audit services to be provided by our independent accountants. Under the policy, proposed services either (i) may be pre-approved by the Audit Committee without consideration of specific case-by-case services; or (ii) require the specific pre-approval of the Audit Committee. General approval applies to services of a recurring and predictable nature. These types of services, once approved by the Audit Committee, will not require further approval in the future, except when actual fees and expenses exceed pre-approved budget levels. In such a case, the Audit Committee may authorize one of its members to approve budget increases subject to the requirement that such member provide a report on his decision to approve or deny an application for budget increases to the Audit Committee at an Audit Committee meeting held immediately after such member grants or denies the approval.

Specific pre-approval applies to all other services. These services must be approved by the Audit Committee on a case-by-case basis after an application including proposed budget and scope of services to be provided by our independent auditors is submitted to the Audit Committee.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Not applicable.

Item 16F. Change in Registrant s Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

As a company listed on both the HKSE and the NYSE, we are subject to applicable Hong Kong laws and regulations, including the HKSE Listing Rules, and the Hong Kong Companies Ordinance, as well as applicable U.S. federal securities laws, including the Exchange Act and the Sarbanes-Oxley Act of 2002. In addition, we are subject to the listing standards of the NYSE to the extent they apply to non-U.S. issuers. As a non-U.S. issuer, we are not required to comply with all of the corporate governance listing standards of the NYSE.

The following is a summary of the significant differences between our corporate governance practices and those required to be followed by U.S. companies under the listing standards of the NYSE.

Section 303A.01 of the NYSE Listed Company Manual provides that listed companies must have a majority of independent directors on its board of directors. As a listed company in Hong Kong, we are subject to the requirement under the HKSE Listing Rules that at least three members of our board of directors be independent as determined under the HKSE Listing Rules. The standards for establishing independence under the HKSE Listing Rules differ from those set forth in the NYSE Listed Company Manual. We currently have five independent directors out of a total of 10 directors.

Section 303A.03 of the NYSE Listed Company Manual provides that listed companies must schedule regular executive sessions in which non-management directors meet without management participation. Under the applicable Hong Kong law, our board of directors is required to meet regularly and at least four times a year, involving active participation by a majority of the directors and affording all directors an opportunity to include matters on the agenda. In addition, when a board meeting considers a matter in which a substantial shareholder or a director has a conflict of interest, the independent directors with no material interest in such matter must be present. Furthermore, it has been our practice to organize exclusive meetings for our independent non-executive directors at least annually.

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Section 303A.04 of the NYSE Listed Company Manual provides that (i) a listed company must have a nominating/corporate governance committee that consists entirely of independent directors and (ii) the nominating/corporate governance committee of a listed company must have a written charter that addresses the committee s purpose and responsibilities, which shall include, among others, the development and recommendation of corporate governance guidelines to the board of directors. The HKSE Listing Rules also contain a recommended best practice that the listed companies are recommended to establish a nomination committee which consists of a majority of independent non-executive directors. We currently do not have a nomination or corporate governance committee. Our board of directors is directly in charge of developing our corporate governance guidelines.

Section 303A.07 of the NYSE Listed Company Manual also provides that if an audit committee member simultaneously serves on the audit committee of more than three public companies, and the listed company does not limit the number of audit committees on which its audit committee members serve to three or less, then, the board of directors of the listed company must (i) determine that such simultaneous service would not impair the ability of such member to effectively serve on the audit committee of the listed company and (ii) disclose such determination. We are not required, under applicable Hong Kong laws, to make such determination.

Section 303A.10 of the NYSE Listed Company Manual provides that listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees. While we are not required to adopt any similar code under the HKSE Listing Rules, we, as required under the Sarbanes-Oxley Act, have adopted a code of ethics that is applicable to our chief executive officer, president, vice presidents, chief of 2002 financial officer, principal accounting officer and general managers and deputy general managers of each of our departments, provincial branches and local branches or persons performing similar functions. We have also adopted a code of ethics that is applicable to all of our employees.

PART III

Item 17. Financial Statements

We have elected to provide the financial statements and related information specified in Item 18 in lieu of Item 17.

Item 18. Financial Statements

See Index to Consolidated Financial Statements for a list of all financial statements filed as part of this annual report.

Item 19. Exhibits

Exhibit Number	Description of Exhibit
1.1	Memorandum of Association of Unicom, dated January 27, 2000.[1]
1.2	Amended Articles of Association of Unicom (as amended on September 16, 2008).[12]
2.1	Deposit Agreement, among Unicom, The Bank of New York, as Depositary, and Owners and Beneficial Owners of American Depositary Receipts issued thereunder, including the form of American Depositary Receipt.[2]
2.2	Form of specimen certificate for the shares.[1]
4.1	Reorganization Agreement between Unicom Group and CUCL, dated April 21, 2000 (together with English translation).[1]
4.2	Equity Transfer Agreement among Unicom Group, Unicom HK, Unicom BVI and Unicom, dated April 21, 2000.[1]

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Exhibit Number	Description of Exhibit
4.3	Trademark License Agreement between Unicom Group and CUCL, dated May 25, 2000 (together with English translation).[1]
4.4	Transmission Line Lease and Services Agreement between Unicom Group, CUCL and Guoxin Paging, dated August 1, 2001 (together with English translation).[1]
4.5	Reorganization Agreement between Unicom Group and Unicom New Century, dated November 18, 2002. (English translation) [3]
4.6	Conditional Sale and Purchase Agreement between Unicom BVI and us in connection with the sale of Unicom New Century, dated November 20, 2002. (English translation) [3]
4.7	Reorganization Agreement between Unicom Group and Unicom New World, dated November 4, 2003. (English translation) [4]
4.8	Conditional Sale and Purchase Agreement between Unicom BVI and us in connection with the sale of Unicom New World, dated November 20, 2003. (English translation) [4]
4.9	Conditional Sales and Purchase Agreement between China Unicom (Hong Kong) Group Limited and our Company with respect to the acquisition of Unicom International, dated July 28, 2004.[5]
4.10	Subscription Agreement between Unicom and SK Telecom, dated June 20, 2006.[6]
4.11	CDMA Network Capacity Lease Agreement among Unicom New Horizon, the A Share Company and Unicom Group, dated October 26, 2006.[7]
4.12	Transfer Agreement of the CDMA Network Capacity Lease Agreement between the A Share Company and CUCL, dated October 26, 2006. (English translation)[7]
4.13	Asset Transfer Agreement between CUCL and Unicom Group in connection with the acquisition of Unicom Guizhou, dated November 16, 2007. (English translation)[8]
4.14	Supplement Agreement among Unicom New Horizon, Unicom Group, CUCL and the A Share Company in connection with the acquisition of Unicom Guizhou and the 2006 CDMA Network Capacity Lease Agreement, dated November 16, 2007. [8]
4.15	CDMA Business Transfer Framework Agreement between us, CUCL and China Telecom dated as of June 2, 2008. (English translation)[8]
4.16	CDMA Business Disposal Agreement among Unicom, CUCL and China Telecom, dated July 27, 2008. (English summary)[12]
4.17	Business and Assets Transfer Agreement among Unicom Parent, Netcom Parent and the A Share Company, relating to acquisitions of certain business and assets, including the fixed-line business in 21 provinces in southern China, dated December 16, 2008. (English translation)[9]

4.18	Transfer Agreement between the A Share Company and CUCL, relating to acquisitions of certain business and assets, including the fixed-line business in 21 provinces in southern China, dated December 16, 2008. (English translation)[9]
4.19	Network Lease Agreement between CUCL and Unicom New Horizon, relating to the lease of telecommunications networks in 21 provinces in southern China by CUCL from Unicom New Horizon, dated December 16, 2008. (English translation)[9]
4.20	Assets and Liabilities Transfer Agreement between CNC China and Netcom Group, dated June 23, 2004. (English translation)[10]
4.21	Asset Injection Agreement among Netcom Group, Netcom BVI, CNC China and China Netcom, dated June 29, 2004. (English translation)[10]
4.22	Letter of Undertakings by Netcom Group, dated September 5, 2005. (English translation)[10]
4.23	Restructuring Agreement among CNC China, Netcom Group and China Netcom, dated September 6, 2004. (English translation)[10]

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Exhibit Number	Description of Exhibit
4.24	Non-Competition Agreement among CNC China, Netcom Group and China Netcom, dated September 6, 2004. (English translation)[10]
4.25	Trademark Licensing Agreement among CNC China, Netcom Group and China Netcom, dated October 8, 2004. (English translation)[10]
4.26	Conditional Sale and Purchase Agreement among China Netcom, Netcom BVI and Netcom Group, relating to the acquisition of CNC New Horizon BVI, dated September 12, 2005.[12]
4.27	Asset Transfer Agreement between China Netcom and Netcom Group, relating to the sale of China Netcom s telecommunications assets, liabilities and business operations in Guangdong Province and Shanghai Municipality, dated January 15, 2007.[12]
4.28	Domestic Interconnection Settlement Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)[12]
4.29	International Long Distance Voice Services Settlement Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)[12]
4.30	Engineering and Information Technology Services Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)[12]
4.31	Master Sharing Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)[12]
4.32	Property Leasing Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)[12]
4.33	Materials Procurement Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)[12]
4.34	Ancillary Telecommunications Services Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)[12]
4.35	Support Services Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)[12]
4.36	Telecommunications Facilities Leasing Agreement between CNC China and Netcom Group, dated November 6, 2007. (English translation)[12]
4.37	Information and Communications Technology Agreement between China Netcom System Integration and Netcom Group, dated November 6, 2007. (English translation)[12]
4.38	Equity Interest Transfer Agreement between China Netcom Group System Integration and China Netcom Group Beijing Communications Corporation, relating to the acquisition of Design Institute,

dated December 5, 2007. (English translation)[11]

4.39 Framework Agreement for Interconnection Settlement between CUCL and Netcom Group, dated August 12, 2008. (English translation)[12]

4.40 Framework Agreement for Engineering and Information Technology Services between CUCL and Netcom Group, dated August 12, 2008. (English translation)[12]

4.41 Framework Agreement for Property Leasing Services between CUCL and Netcom Group, dated August 12, 2008. (English translation)[12]

4.42 Framework Agreement for Ancillary Telecommunications Services between CUCL and Netcom Group, dated August 12, 2008. (English translation)[12]

4.43 Framework Agreement for Support Services between CUCL and Netcom Group, dated August 12, 2008. (English translation)[12]

4.44 Framework Agreement for Telecommunications Facilities Leasing between CUCL and Netcom Group, dated August 12, 2008. (English translation)[12]

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Exhibit Number	Description of Exhibit
4.45	Comprehensive Services Agreement between Unicom Group and the A Share Company, dated August 12, 2008. (English translation)[12]
4.46	Transfer Agreement among the A Share Company, CUCL and CNC China, in connection with the Comprehensive Services Agreement, dated August 12, 2008. (English translation)[12]
4.47	Merger Agreement between CUCL and CNC China, relating to the merger between CUCL and CNC China, dated October 15, 2008. (English translation)[12]
4.48	Pre-Global Offering Share Option Scheme, adopted by ordinary resolution of the Company on June 1, 2000 and amended by ordinary resolutions of the Company on May 13, 2002, May 11, 2007 and May 26, 2009. [12]
4.49	Share Option Scheme, adopted by ordinary resolution of the Company on June 1, 2000 and amended by ordinary resolutions of the Company on May 13, 2002, May 11, 2007 and May 26, 2009.[12]
4.50	Special Purpose Share Option Scheme, adopted by ordinary resolution of the Company on September 16, 2008 and amended by ordinary resolutions of the Company on May 26, 2009.[12]
4.51	Subscription Agreement between China Unicom (Hong Kong) Limited and Telefónica S.A., dated September 6, 2009. *
4.52	Strategic Alliance Agreement between us and Telefónica, dated September 6, 2009.*
4.53	Irrevocable Offer by SK Telecom, dated September 25, 2009.*
4.54	Irrevocable voting undertaking from China Netcom Group Corporation (BVI) Limited in favor of SK Telecom, dated September 25, 2009.*
4.55	Share Repurchase Agreement, dated November 3, 2009.*
4.56	Amendment Agreement to Share Repurchase Agreement, dated November 3, 2009.*
8.1	List of our significant subsidiaries.*
11.1	Code of Ethics for Senior Officers.[4]
11.2	Employee Code of Ethics. (English translation)[6]
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).*
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).*
13.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b).*

13.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b).*

We have not included as exhibits certain instruments with respect to our long-term debt, the amount of debt authorized under each of which does not exceed 10% of our total assets, and we agree to furnish a copy of any such instrument to the Securities Exchange Commission upon request.

(1) Incorporated by reference to our Registration Statement on Form F-1 (File No. 333-11938) filed with the SEC in connection with our initial public offering in June 2000.

(2) Incorporated by reference to the Registration Statement on Form F-6 (File No. 333-11952) filed with the SEC with respect to American Depositary Shares representing our shares.

(3) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2002.

(4) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year

ended December 31, 2003.

(5) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2004.

(6) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2005.

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(7) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2006.

(8) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2007.

(9) Incorporated by reference to Schedule 13D/A (File No. 5-51154) filed by China Netcom Group Corporation (BVI) Limited, China Network Communications Group Corporation, China United Network Communications Group Company Limited, China United Telecommunications Corporation Limited, and China Unicom (BVI) Limited, filed on December 24, 2008.

(10) Incorporated by reference to China Netcom s Registration Statement on Form F-1 (File No. 333-119786) filed with the SEC in connection with its

initial public offering in November 2004.

(11) Incorporated by reference to China Netcom s Annual Report on Form 20-F (File No. 1-32332) for the year ended December 31, 2007.

(12) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2008.

* Filed herewith.

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SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Date: June 18, 2010

CHINA UNICOM (HONG KONG) LIMITED

By: /s/ Chang Xiaobing
Name: Chang Xiaobing
Title: Chairman and Chief Executive Officer

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Report of Independent Registered Public Accounting Firm
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Consolidated statements of income for the years ended December 31, 2007, 2008 and 2009
Consolidated statements of comprehensive income for the years ended December 31, 2007, 2008 and 2009
Consolidated statements of changes in equity for the years ended December 31, 2007, 2008 and 2009
Consolidated statements of cash flows for the years ended December 31, 2007, 2008 and 2009
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Report of Independent Registered Public Accounting Firm
TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
CHINA UNICOM (HONG KONG) LIMITED
(Incorporated in the Hong Kong Special Administrative Region of the People s Republic of China (Hong Kong) with limited liability)

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of China Unicom (Hong Kong) Limited and its subsidiaries (together, the Group) at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board and in conformity with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. Also in our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Group s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Management s Annual Report on Internal Control Over Financial Reporting included in Item 15 of this Annual Report on Form 20-F. Our responsibility is to express opinions on these financial statements and on the Group s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers
Hong Kong
June 18, 2010

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2008 AND 2009
(All amounts in Renminbi (RMB) millions)

		As of December 31		
	Note	2008 As restated (Note 2.2 (a)) RMB	2009 RMB	2009 US$
ASSETS				
Non-current assets				
Property, plant and equipment	6	285,469	351,157	51,445
Lease prepayments	7	7,863	7,729	1,132
Goodwill	8	2,771	2,771	406
Deferred income tax assets	9	5,334	5,202	762
Available-for-sale financial assets	12	95	7,977	1,168
Other assets	10	9,087	11,596	1,699
		310,619	386,432	56,612
Current assets				
Inventories and consumables	13	1,092	2,412	353
Accounts receivable, net	14	9,341	8,825	1,293
Prepayments and other current assets	15	2,715	4,252	623
Amounts due from ultimate holding company	39.1	169		
Amounts due from related parties	39.1	128	53	8
Amounts due from domestic carriers	39.2	974	1,134	166
Proceeds receivable for disposal of the CDMA business	35, 39.2	13,140	5,121	750
Short-term bank deposits	16	337	996	146
Cash and cash equivalents	17	10,237	7,820	1,146
		38,133	30,613	4,485
Total assets		348,752	417,045	61,097
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Share capital	18	2,329	2,310	339
Share premium	18	166,784	173,435	25,408
Reserves	19	(15,464)	(18,088)	(2,650)

Retained profits				
Proposed final dividend	36	4,754	3,770	552
Others		49,322	45,038	6,598
		207,725	206,465	30,247
Minority interest in equity		2	2	
Total equity		207,727	206,467	30,247

The accompanying notes are an integral part of the consolidated financial statements.

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED BALANCE SHEETS (Continued)
AS OF DECEMBER 31, 2008 AND 2009
(All amounts in RMB millions)

		As of December 31		
	Note	2008 As restated (Note 2.2 (a)) RMB	2009 RMB	2009 US$
LIABILITIES				
Non-current liabilities				
Long-term bank loans	20	997	759	111
Corporate bonds	21	7,000	7,000	1,026
Deferred income tax liabilities	9	16	245	36
Deferred revenue		3,398	2,562	375
Other obligations	23	1,681	187	27
		13,092	10,753	1,575
Current liabilities				
Accounts payable and accrued liabilities	24	67,509	104,072	15,247
Taxes payable		11,307	912	134
Amounts due to ultimate holding company	39.1		308	45
Amounts due to related parties	39.1	1,658	5,438	797
Amounts due to domestic carriers	39.2	956	1,136	166
Payables in relation to disposal of the CDMA business	39.2	4,232	7	1
Dividend payable	36	149	331	48
Commercial paper	25	10,000		
Short-term bank loans	26	10,780	63,909	9,363
Current portion of long-term bank loans	20	1,216	62	9
Current portion of deferred revenue		2,200	1,397	205
Current portion of other obligations	23	3,012	2,534	371
Advances from customers		14,914	19,719	2,889
		127,933	199,825	29,275
Total liabilities		141,025	210,578	30,850
Total equity and liabilities		348,752	417,045	61,097
Net current liabilities		(89,800)	(169,212)	(24,790)

Total assets less current liabilities	220,819	217,220	31,822

The accompanying notes are an integral part of the consolidated financial statements.

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009
(All amounts in RMB millions, except per share data)

		Year ended December 31			
	Note	2007 As restated (Note 2.2(a))	2008 As restated (Note 2.2 (a))	2009	2009
Continuing operations		RMB	RMB	RMB	US$
Revenue	5, 27, 39	159,940	159,792	153,945	22,553
Interconnection charges		(12,198)	(13,038)	(12,955)	(1,898)
Depreciation and amortization		(47,625)	(47,961)	(47,587)	(6,971)
Networks, operations and support expenses	28	(17,877)	(18,736)	(21,728)	(3,183)
Leasing fee for telecommunications networks in Southern China	4.2(b)			(2,000)	(293)
Employee benefit expenses	29	(19,398)	(20,758)	(21,931)	(3,213)
Other operating expenses	30	(36,353)	(37,748)	(36,723)	(5,380)
Finance costs	31	(3,241)	(2,423)	(1,036)	(152)
Interest income		305	265	91	13
Impairment loss on property, plant and equipment	6		(11,837)		
Realized loss on changes in fair value of derivative component of convertible bonds	22	(569)			
Realized gain on changes in fair value of derivative financial instrument	32			1,239	182
Other income net	33	5,100	2,097	962	141
Income from continuing operations before income tax		28,084	9,653	12,277	1,799
Income tax expenses	9	(7,175)	(1,828)	(2,721)	(399)
Income from continuing operations		20,909	7,825	9,556	1,400
Discontinued operations					
Income from discontinued operations	35	656	1,438		
Gain on disposal of discontinued operations	35		26,135		
Net income		21,565	35,398	9,556	1,400
Attributable to:					
Equity holders of the Company		21,565	35,398	9,556	1,400
Minority interest					

	21,565	35,398	9,556	1,400

The accompanying notes are an integral part of the consolidated financial statements.

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS OF INCOME (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009
(All amounts in RMB millions, except per share data)

		Year ended December 31			
		2007	2008		
	Note	As restated (Note 2.2 (a)) RMB	As restated (Note 2.2 (a)) RMB	2009 RMB	2009 US$
Earnings per share for income attributable to equity holders of the Company during the year					
Basic earnings per share (RMB)	37	0.93	1.49	0.40	0.06
Diluted earnings per share (RMB)	37	0.92	1.48	0.40	0.06
Earnings per ADS for income attributable to equity holders of the Company during the year					
Basic earnings per ADS (RMB)	37	9.35	14.90	4.02	0.59
Diluted earnings per ADS (RMB)	37	9.25	14.79	4.00	0.59
Earnings per share for income from continuing operations attributable to equity holders of the Company during the year					
Basic earnings per share (RMB)	37	0.90	0.33	0.40	0.06
Diluted earnings per share (RMB)	37	0.89	0.33	0.40	0.06
Earnings per ADS for income from continuing operations attributable to equity holders of the Company during the year					
Basic earnings per ADS (RMB)	37	9.06	3.29	4.02	0.59

Diluted earnings per ADS (RMB)	37	8.97	3.27	4.00	0.59
Earnings per share for income from discontinued operations attributable to equity holders of the Company during the year					
Basic earnings per share (RMB)	37	0.03	1.16		
Diluted earnings per share (RMB)	37	0.03	1.15		
Earnings per ADS for income from discontinued operations attributable to equity holders of the Company during the year					
Basic earnings per ADS (RMB)	37	0.29	11.61		
Diluted earnings per ADS (RMB)	37	0.28	11.52		

Details of dividends attributable to equity holders of the Company for the years ended December 31, 2007, 2008 and 2009 are set out in Note 36.

The accompanying notes are an integral part of the consolidated financial statements.

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009
(All amounts in RMB millions)

	Year ended December 31			
	2007	**2008**	**2009**	**2009**
	RMB	**RMB**	**RMB**	**US$**
Net income	21,565	35,398	9,556	1,400
Other comprehensive income/(loss)				
Fair value gains/(losses) on available-for-sale financial assets	246	(188)	(71)	(10)
Tax effect on fair value (gains)/losses on available-for-sale financial assets	(81)	47	33	5
Fair value gains/(losses) on available-for-sale financial assets, net of tax	165	(141)	(38)	(5)
Currency translation differences	(15)	(29)		
Other comprehensive income/(loss) for the year, net of tax	150	(170)	(38)	(5)
Total comprehensive income for the year	21,715	35,228	9,518	1,395
Total comprehensive income attributable to:				
Equity holders of the Company	21,715	35,228	9,518	1,395
Minority interest				
	21,715	35,228	9,518	1,395

The accompanying notes are an integral part of the consolidated financial statements.

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009
(All amounts in RMB millions)

	Attributable to equity holders of the Company										
	Share capital	Share premium	Employee share-based compensation reserve	Revaluation reserve	Available-for-sale fair value reserve	Statutory reserves	Other Reserve	Retained profits	Total	Minority interest	Total equity
Balance at January 1, 2007 (As previously reported)	1,344	53,223	389	3,150		14,830	41,116	39,214	153,266	3	153,269
Adjusted for 2009 Business Combination under common control (Note 1)				39	1	827	4,957	(6,467)	(643)	4	(639)
Balance at January 1, 2007 (As restated)	1,344	53,223	389	3,189	1	15,657	46,073	32,747	152,623	7	152,630
Total comprehensive income/(loss) for the year					165		(15)	21,565	21,715		21,715
Transfer to retained profits in respect of depreciation on revalued assets				(2,179)			(84)	2,263			
Effect of change of statutory income tax rate on deferred tax recognized in equity				135	19		(664)		(510)		(510)
Consideration for purchase of entity under common control (Note 1)							(1,179)		(1,179)		(1,179)
Distributions due to business combinations of							(101)	(48)	(149)		(149)

entities and business under common control (Note 1)											
Transfer of net income to other reserve due to purchase of Guizhou Business under common control (Note 1)							95	(95)			
Capitalization of retained profits							17,295	(17,295)			
Transfer to statutory reserves						1,517		(1,517)			
Appropriation to statutory reserves						1,591		(1,591)			
Equity-settled share option schemes:											
Value of employee services			216						216		216
Issuance of shares upon exercise of options (Note 34)	5	366	(89)				250		532		532
Conversion of convertible bonds (Note 22)	88	10,731							10,819		10,819
Dividends relating to 2006 (Note 36)								(5,885)	(5,885)		(5,885)
Balance at December 31, 2007 (As restated)	1,437	64,320	516	1,145	185	18,765	61,670	30,144	178,182	7	178,189

The accompanying notes are an integral part of the consolidated financial statements.

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009
(All amounts in RMB millions)

	Attributable to equity holders of the Company										
	Share capital	Share premium	Employee share-based compensation reserve	Revaluation reserve	Available-for-sale fair value reserve	Statutory reserves	Other Reserve	Retained profits	Total	Minority interest	Total equity
Balance at January 1, 2008 (As previously reported)	1,437	64,320	516	1,113		17,933	56,713	36,480	178,512	4	178,516
Adjusted for 2009 Business Combination under common control (Note 1)				32	185	832	4,957	(6,336)	(330)	3	(327)
Balance at January 1, 2008 (As restated)	1,437	64,320	516	1,145	185	18,765	61,670	30,144	178,182	7	178,189
Total comprehensive (loss)/income for the year					(141)		(29)	35,398	35,228		35,228
Effect of 2009 Business Combination						(201)	2,062	(1,861)			
Transfer to retained profits in respect of depreciation on revalued assets				(984)			(70)	1,054			
Transfer to statutory reserves						886		(886)			
Appropriation to statutory reserves						3,542		(3,542)			
Equity-settled share option schemes:											
Value of employee			96						96		96

services											
Issuance of shares upon exercise of options (Note 34)	3	252	(72)				267		450		450
Issuance of shares in connection with 2008 Business Combination (Note 1)	889	102,212					(103,101)				
Transfer out upon disposal of the CDMA business										(5)	(5)
Dividends relating to 2007 (Note 36)								(6,231)	(6,231)		(6,231)
Balance at December 31, 2008 (As restated)	2,329	166,784	540	161	44	22,992	(39,201)	54,076	207,725	2	207,727

The accompanying notes are an integral part of the consolidated financial statements.

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009
(All amounts in RMB millions)

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital redemption reserve	Employee share-based compensation reserve	Revaluation reserve	Available-for-sale fair value reserve	Statutory reserves	Other Reserve	Retained profits	Total	Minority interest	Total equity
Balance at January 1, 2009 (As previously reported)	2,329	166,784	540	136			22,361	(46,220)	60,780	206,710		206,710
Adjusted for 2009 Business Combination under common control (Note 1)					25	44	631	7,019	(6,704)	1,015	2	1,017
Balance at January 1, 2009 (As restated)	2,329	166,784	540	161	44		22,992	(39,201)	54,076	207,725	2	207,727
Total comprehensive (loss)/income for the year						(38)			9,556	9,518		9,518
Transfer of profit of entities under common control to Unicom Group in relation to 2009 Business Combination									(64)	(64)		(64)
Consideration for 2009 Business Combination under common control (Note 1)								(3,896)		(3,896)		(3,896)
Transfer to retained profits in respect of					(55)				55			

depreciation on revalued assets												
Transfer to statutory reserves							490		(490)			
Appropriation to statutory reserves							769		(769)			
Equity-settled share option schemes:												
Value of employee services				27						27		27
Issuance of shares for mutual investment by the Company and Telefónica (Note 18 & Note 32)	60	6,651								6,711		6,711
Off-market share repurchase (Note 18)	(79)		79						(8,802)	(8,802)		(8,802)
Dividends relating to 2008 (Note 36)									(4,754)	(4,754)		(4,754)
Balance at December 31, 2009	2,310	173,435	79	567	106	6	24,251	(43,097)	48,808	206,465	2	206,467

The accompanying notes are an integral part of the consolidated financial statements.

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009
(All amounts in RMB millions)

		Year ended December 31			
	Note	2007 As restated (Note 2.2 (a)) RMB	2008 As restated (Note 2.2 (a)) RMB	2009 RMB	2009 US$
Cash flows from operating activities					
Cash generated from continuing operations	(a)	80,252	67,794	63,990	9,375
Interest received		308	269	93	14
Interest paid		(3,511)	(3,011)	(1,681)	(246)
Income tax paid		(8,195)	(7,811)	(4,669)	(684)
Net cash inflow from operating activities of continuing operations		68,854	57,241	57,733	8,459
Net cash inflow from operating activities of discontinued operations	35	837	656		
Net cash inflow from operating activities		69,691	57,897	57,733	8,459
Cash flows from investing activities					
Purchase of property, plant and equipment		(41,934)	(48,127)	(78,130)	(11,446)
Proceeds from disposal of property, plant and equipment and other assets		148	488	611	90
Dividends received from available-for-sale financial assets		4	3	177	26
Consideration for purchase of business and entities under common control		(3,139)	(5,880)	(3,896)	(571)
(Increase)/decrease in short-term bank deposits		(433)	415	(659)	(97)
Purchase of other assets		(2,416)	(1,641)	(3,411)	(500)
Net cash outflow from investing activities of continuing operations		(47,770)	(54,742)	(85,308)	(12,498)
	35	(25)	29,489	(5,039)	(738)

Net cash (outflow) /inflow from investing activities of discontinued operations				
Net cash outflow from investing activities	(47,795)	(25,253)	(90,347)	(13,236)

The accompanying notes are an integral part of the consolidated financial statements.

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009
(All amounts in RMB millions)

		Year ended 31 December			
	Note	2007 As restated (Note 2.2 (a)) RMB	2008 As restated (Note 2.2 (a)) RMB	2009 RMB	2009 US$
Cash flows from financing activities					
Proceeds from exercise of share options		532	450		
Proceeds from commercial paper		20,000	10,000		
Proceeds from short-term bank loans		63,837	50,714	96,204	14,094
Proceeds from long-term bank loans		2,559	2,888		
Proceeds from issuance of corporate bonds		2,000	5,000		
Proceeds from related party loans		2,249		2,114	310
Repayment of commercial paper		(16,646)	(20,000)	(10,000)	(1,465)
Repayment of short-term bank loans		(82,965)	(51,784)	(43,075)	(6,311)
Repayment of long-term bank loans		(13,416)	(23,832)	(1,406)	(206)
Repayment of capital element of finance lease payments		(890)	(101)		
Repayment of related party loans			(2,222)		
Payment of prior year profit transfer		(1,180)	(101)	(266)	(39)
Consideration for off-market share repurchase				(8,802)	(1,290)
Dividends paid to equity holders	36	(5,885)	(6,082)	(4,572)	(670)
Net cash (outflow)/inflow from financing activities of continuing operations		(29,805)	(35,070)	30,197	4,423
Net cash outflow from financing activities of discontinued operations					
Net cash (outflow)/inflow from financing activities		(29,805)	(35,070)	30,197	4,423
Net cash (outflow)/inflow from continuing operations		(8,721)	(32,571)	2,622	384
Net cash inflow/(outflow) from discontinued operations	35	812	30,145	(5,039)	(738)
Net decrease in cash and cash equivalents		(7,909)	(2,426)	(2,417)	(354)
Cash and cash equivalents, beginning of year		20,572	12,663	10,237	1,500
Cash and cash equivalents, end of year	17	12,663	10,237	7,820	1,146

Analysis of the balances of cash and cash equivalents:

Cash balances	11	8	7	1
Bank balances	12,652	10,229	7,813	1,145
	12,663	10,237	7,820	1,146

The accompanying notes are an integral part of the consolidated financial statements.

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009
(All amounts in RMB millions)

(a) The reconciliation of income from continuing operations before income tax to cash generated from continuing operations is as follows:

	Year ended December 31			
	2007 As restated (Note 2.2 (a)) RMB	2008 As restated (Note 2.2 (a)) RMB	2009 RMB	2009 US$
Income from continuing operations before income tax	28,084	9,653	12,277	1,799
Adjustments for:				
Depreciation and amortization	47,625	47,961	47,587	6,971
Interest income	(305)	(265)	(91)	(13)
Finance costs	2,932	2,153	828	121
Loss/(gain) on disposal of property, plant and equipment and other assets	140	(10)	(91)	(14)
Gain on non-monetary assets exchange	(386)	(1,305)	(38)	(6)
Share-based compensation costs	170	84	27	4
Provision for doubtful debts	2,260	3,025	2,355	345
Impairment loss on property, plant and equipment		11,837		
Realized loss on changes in fair value of derivative component of convertible bonds	569			
Realized gain on changes in fair value of derivative financial instruments			(1,239)	(182)
Dividends from available-for-sale financial assets	(4)	(3)	(215)	(32)
Changes in working capital:				
Increase in accounts receivable	(2,021)	(2,044)	(1,839)	(269)
Decrease /(increase) in inventories and consumables	7	(126)	(1,320)	(193)
Decrease/(increase) in other assets	1,638	834	(125)	(18)
(Increase)/decrease in prepayments and other current assets	(939)	1,000	(1,539)	(225)
(Increase)/decrease in amounts due from related parties	(34)	116	75	11
Decrease/(increase) in amounts due from domestic carriers	52	267	(160)	(23)
Increase/(decrease) in accounts payable, accrued liabilities and taxes payable	3,338	(2,156)	4,659	682
Increase in advances from customers	533	1,653	4,805	704
Decrease in deferred revenue	(2,880)	(2,993)	(1,639)	(240)
Decrease in other obligations	(863)	(767)	(2,101)	(307)
Increase/(decrease) in amounts due to ultimate holding company	735	(1,733)	413	61
(Decrease)/increase in amounts due to related parties	(120)	(551)	1,942	284
(Decrease)/increase in amounts due to domestic carriers	(279)	396	180	26
Increase/(decrease) in payables in relation to disposal of the CDMA business		768	(761)	(111)
Cash generated from continuing operations	80,252	67,794	63,990	9,375

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2007, 2008 AND 2009
(All amounts in RMB millions)

(b) Major non-cash transactions:

(i) Payables to equipment suppliers for construction-in-progress during 2009 increased by approximately RMB33.1 billion (2007: approximately RMB1.3 billion; 2008: approximately RMB19.8 billion).

(ii) On October 21, 2009, the Company and Telefónica S.A. (Telefónica) completed the mutual investment of the equivalent of USD1 billion in each other, which was implemented by way of the subscription by Telefónica for 693,912,264 new shares of the Company at a price of HKD11.17 each, satisfied by the contribution by Telefónica of 40,730,735 Telefónica treasury shares at a price of Euro17.24 each to the Company. Please refer to Note 18 and Note 32 for details.

(iii) On October 15, 2008, the Company issued 10,102,389,377 ordinary shares of HKD0.10 each at a price of HKD11.60 per share with fair value or total price of approximately RMB103.1 billion (equivalent to approximately HKD117.2 billion) in exchange for the entire issued share capital of China Netcom Group Corporation (Hong Kong) Limited. Please refer to Note 1 and Note 18 for details.

(iv) On August 20, 2007, convertible bonds of USD1 billion outstanding as of December 31, 2006 were fully converted into 899,745,075 ordinary shares of HKD0.10 each of the Company. Please refer to Note 22 for details.

(v) For the years ended December 31, 2007, 2008 and 2009, the Group replaced copper cables in certain fixed-line network infrastructure with optical fibers and related equipment. Some of this replacement was done through non-monetary assets exchanges with suppliers, through which optical fibers and related equipment were received in exchange for the Group s own copper cables. The cost of the assets received was recorded at the fair value of the assets surrendered. In 2009, the net book value and fair value of copper cables surrendered were RMB60 million (2007: RMB182 million; 2008: RMB805 million) and RMB98 million (2007:RMB568 million; 2008: RMB2,110 million), respectively. Gain on the non-monetary assets exchange of RMB38 million (2007:RMB386 million; 2008: RMB1,305 million) was recognized in the statement of income for the year ended December 31, 2009.

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CHINA UNICOM (HONG KONG) LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(All amounts in RMB millions unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

China Unicom (Hong Kong) Limited (the Company) was incorporated as a limited liability company in the Hong Kong Special Administrative Region (Hong Kong), the People s Republic of China (the PRC) on February 8, 2000. After disposal of the CDMA business to China Telecom Corporation Limited (China Telecom) on October 1, 2008, the merger with China Netcom Group Corporation (Hong Kong) Limited (China Netcom) on October 15, 2008 and the launch of WCDMA mobile business on October 1, 2009, the principal activities of the Company are investment holding and the Company s subsidiaries are principally engaged in the provision of cellular and fixed-line voice and related value-added services, broadband and other Internet-related services, information communications technology services, and business and data communications services in the PRC. The GSM cellular voice, WCDMA cellular voice and related value-added services is referred to as the Mobile business , the services aforementioned other than the Mobile business is hereinafter collectively referred to as the Fixed-line business . The Company and its subsidiaries are hereinafter referred to as the Group . The address of its registered office is 75th Floor, The Center, 99 Queen s Road Central, Hong Kong.

The shares of the Company were listed on the Stock Exchange of Hong Kong Limited (SEHK) on June 22, 2000 and the American Depositary Shares (ADS) of the Company were listed on the New York Stock Exchange on June 21, 2000.

On November 15, 2008, the Company was notified by its substantial shareholders, namely China Unicom (BVI) Limited (Unicom BVI) and China Netcom Group Corporation (BVI) Limited (Netcom BVI), that their respective parent companies, namely, China United Network Communications Group Company Limited (a state-owned enterprise established in the PRC, the parent company of Unicom BVI, hereinafter referred to as Unicom Group) and China Network Communications Group Corporation (a state-owned enterprise established in the PRC, the parent company of Netcom BVI, hereinafter referred to as Netcom Group), had agreed to undertake a merger (the Parent Merger). On January 6, 2009, the Company was notified by its substantial shareholders that the Parent Merger, through the absorption of Netcom Group by Unicom Group, had been approved by the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and had become effective. As a result of the Parent Merger, Unicom Group has assumed all the rights and obligations of Netcom Group, all the assets, liabilities and business of Netcom Group including the connected transaction agreements with the Group have vested in Unicom Group and Unicom Group remains the ultimate holding company of the Company.

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1. ORGANISATION AND PRINCIPAL ACTIVITIES (Continued)

(a) Acquisitions of certain assets and businesses from Unicom Group and Netcom Group in 2009

On January 31, 2009, China United Network Communications Corporation Limited (CUCL , a wholly-owned subsidiary of the Company) completed the acquisition from Unicom Group and Netcom Group of (i) the fixed-line business, but not the underlying telecommunications networks, across the 21 provinces in Southern China and related non-current assets and liabilities (hereinafter referred to as the Fixed-line Business in Southern China) and the local access telephone business and related assets in Tianjin Municipality operated by Netcom Group and Unicom Group and/or their respective subsidiaries and branches; (ii) the backbone transmission assets in Northern China owned by Netcom Group and/or its subsidiaries (Target Assets); (iii) a 100% equity interest in Unicom Xingye Science and Technology Trade Company Limited (Unicom Xingye) owned by Unicom Group; (iv) a 100% equity interest in China Information Technology Designing & Consulting Institute Company Limited (CITDCI) owned by Unicom Group and (v) a 100% equity interest in New Guoxin Telecom Corporation of China Unicom (New Guoxin) owned by Unicom Group at a consideration of approximately RMB4.43 billion. The businesses and assets described in (i), (iii), (iv) and (v) above are hereinafter collectively referred to as the Target Business and the acquisition of the Target Business is referred to as the 2009 Business Combination .

(b) Lease of telecommunications networks in Southern China from Unicom New Horizon Mobile Telecommunications Company Limited in 2009

In connection with the 2009 Business Combination, on December 16, 2008, CUCL, Unicom Group, Netcom Group and Unicom New Horizon Mobile Telecommunications Company Limited (Unicom New Horizon , a wholly-owned subsidiary of Unicom Group) entered into an agreement (the Network Lease Agreement) in relation to the lease (the Lease) of the fixed-line telecommunications networks of the 21 provinces in Southern China (Telecommunications Networks in Southern China) by CUCL from Unicom New Horizon on an exclusive basis immediately following and subject to the completion of the 2009 Business Combination. Under the Network Lease Agreement, CUCL shall pay annual leasing fees of RMB2.0 billion and RMB2.2 billion for the two financial years ending December 31, 2009 and December 31, 2010, respectively. The initial term of the Lease is two years effective from January 2009 and the Lease is 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, taking into account, among others, the then prevailing market conditions in Southern China. Moreover, in connection with the Lease, Unicom New Horizon has granted to CUCL an option to purchase the Telecommunications Networks in Southern China and the purchase price will be referenced to the then appraised value of the networks determined by an independent appraiser.

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1. ORGANISATION AND PRINCIPAL ACTIVITIES (Continued)

(c) Merger between CUCL and China Netcom (Group) Company Limited in 2009

On January 1, 2009, as part of the Company s integration with China Netcom, the Company completed the reorganization of its wholly-owned subsidiaries, namely (i) CUCL and (ii) China Netcom (Group) Company Limited (CNC China , a wholly-owned foreign enterprise established in the PRC and a wholly-owned subsidiary of China Netcom), pursuant to which CUCL merged with, and absorbed, CNC China. The merged company retains the name of China United Network Communications Corporation Limited and remains a wholly-owned subsidiary of the Company. The CNC China mentioned below represents CNC China before the merger with CUCL on January 1, 2009.

The merger between CUCL and CNC China does not have any impact on the consolidated financial statements.

(d) 2008 disposal and business combination activities

Disposal of the Group s CDMA business to China Telecom in 2008

On October 1, 2008, the Company completed disposal of the CDMA business to China Telecom in accordance with the CDMA business framework agreement (the Framework Agreement) and the CDMA business disposal agreement (the Disposal Agreement) entered into among the Company, CUCL and China Telecom.

Merger between the Company and China Netcom by way of a scheme of arrangement of China Netcom in 2008 (hereinafter referred to as the 2008 Business Combination)

On October 15, 2008, the Company completed its merger with China Netcom by way of a scheme of arrangement of China Netcom (the Scheme) under Section 166 of the Hong Kong Companies Ordinance. The consideration for the 2008 Business Combination was approximately HKD117.2 billion which was satisfied by the issuance of 10,102,389,377 ordinary shares of HKD0.10 each of the Company to the shareholders of China Netcom.

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1. ORGANISATION AND PRINCIPAL ACTIVITIES (Continued)

(e) 2007 disposal and business combination activities

Disposal of the fixed-line telecommunications and operations in Guangdong province and Shanghai municipality branches (Guangdong and Shanghai Branches)

On February 28, 2007, the Company s wholly-owned subsidiary, CNC China completed its sale of assets and liabilities in relation to the fixed-line telecommunication operations in Guangdong and Shanghai Branches in the PRC to Netcom Group at a cash consideration of RMB 3.5 billion. The Guangdong and Shanghai Branches were reacquired by the Group during the 2009 Business Combination (Note 1(a) and Note 2.2(c)).

Purchase of assets and business of Guizhou branch of Unicom Group

On December 31, 2007, CUCL completed its purchase of the GSM cellular telecommunication assets and business, and the CDMA cellular telecommunication business (operated through a leasing of CDMA network capacity from Unicom New Horizon) of Guizhou branch of Unicom Group (Guizhou Business) at a cash consideration of RMB880 million. In addition, pursuant to an asset transfer agreement, the income or loss of the Guizhou Business for the period from December 31, 2006 to December 31, 2007 (i.e. the effective date of the acquisition) was transferred to Unicom Group.

Acquisition of Beijing Telecommunications Planning and Designing Institute Corporation Limited (Beijing Telecom P&D Institute)

On December 31, 2007, China Netcom Group System Integration Limited Corporation (System Integration Corporation , a wholly-owned subsidiary of CNC China) completed its acquisition of the entire equity interest of Beijing Telecom P&D Institute from China Netcom Group Beijing Communications Corporation (Beijing Communications Corporation , a subsidiary of Netcom Group) at a total consideration of RMB299 million.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Statement of Compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (IASs) and Interpretations issued by the IASB. Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), are consistent with IFRSs. These financial statements also comply with HKFRSs.

2.2 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention, modified by the revaluation of property, plant and equipment (other than buildings and telecommunications equipment of the Mobile business), available-for-sale financial assets and derivative financial instrument at fair value through income or loss. The consolidated financial statements prepared by the PRC subsidiaries for PRC statutory reporting purposes are based on the Chinese Accounting Standards for Business Enterprises (CAS) issued by the Ministry of Finance of the PRC, which became effective from January 1, 2007 with certain transitional provisions. There are certain differences between the Group s IFRSs/HKFRSs financial statements and PRC statutory financial statements. The principal adjustments made to the PRC statutory financial statements to conform to IFRSs/HKFRSs include the following:

reversal of the revaluation surplus or deficit and related depreciation and amortization charges arising from the revaluation of assets (mainly property, plant and equipment) performed by independent valuers for the purpose of reporting to relevant PRC government authorities;

recognition of the revaluation surplus or deficit and related depreciation charges for the purpose of reporting the property, plant and equipment (other than buildings and telecommunications equipment of the Mobile business) at revalued amounts under IFRSs/HKFRSs;

recognition of goodwill associated with the acquisition of certain subsidiaries prior to 2005;

capitalization of the direct costs associated with the acquisition of subsidiaries prior to 2005;

additional capitalization of borrowing costs prior to the adoption of CAS on January 1, 2007;

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

capitalization and amortization of upfront non-refundable revenue and the related direct incremental costs for activating mobile subscribers prior to the adoption of CAS on January 1, 2007; and

adjustments for deferred taxation in relation to IFRSs/HKFRSs adjustments.

(a) Business Combination of Entities and Business under Common Control and Purchase of Target Assets

The 2009 Business Combination was considered a business combination of entities and businesses under common control as the Target Business before and after the acquisition was both under the control of Unicom Group, the Group s ultimate holding company.

The merger between the Company and China Netcom in 2008 was considered a business combination of entities under common control as their respective ultimate holding companies, namely Unicom Group and Netcom Group, were both under the common control of SASAC. Further, the 2008 Business Combination was carried out by reference to the Announcement on Deepening the Reform of the Structure of the Telecommunications Sector dated May 24, 2008 jointly issued by the Ministry of Industry and Information Technology (MIIT), the National Development and Reform Commission (NDRC) and the Ministry of Finance of the PRC. As set out in Note 1, Unicom Group and Netcom Group had merged on January 6, 2009 following the merger between the Company and China Netcom.

The acquisition of Beijing Telecom P&D Institute in 2007 was considered to be a business combination of entities under common control of Netcom Group as Beijing Telecom P&D Institute was a wholly-owned subsidiary of Beijing Communications Corporation, which is a wholly-owned subsidiary of Netcom Group.

The acquisition of Guizhou Business in 2007 was also considered to be a business combination of entity and business under common control as the Group and Guizhou Business were both under the common control of Unicom Group.

Under HKFRSs, the above transactions were accounted for using merger accounting in accordance with the Accounting Guideline 5 Merger accounting for common control combinations (AG 5) issued by the HKICPA. Upon the adoption of IFRSs by the Group in 2008, the Group adopted the accounting policy to account for business combinations of entities and businesses under common control using the predecessor values method, which is consistent with HKFRSs. Accordingly, the acquired assets and liabilities are stated at predecessor values, and were included in the consolidated financial statements from the beginning of the earliest period presented as if the entities and businesses acquired had always been part of the Group.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(a) Business Combination of Entities and Business under Common Control and Purchase of Target Assets (Continued)

Under IFRSs/HKFRSs, the purchase of the Target Assets in 2009 of approximately RMB0.53 billion was accounted for as an asset purchase in accordance with IAS/HKAS 16 Property, plant and equipment in the period of purchase.

(b) Summary of the restatement to 2007 and 2008 comparative financial information

The impact of the restatement of 2007 and 2008 comparative financial information in connection with the 2009 Business Combination is summarized as follows:

	As previously reported	2009 Business Combination	Eliminations	As restated
For the year ended December 31, 2007				
Results of continuing operations:				
Revenue	150,687	12,618	(3,365)	159,940
Net income	20,158	799	(48)	20,909

	As previously reported	2009 Business Combination	Eliminations	As restated
For the year ended December 31, 2008				
Results of continuing operations:				
Revenue	148,906	14,337	(3,451)	159,792
Net income	6,340	1,537	(52)	7,825

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(b) Summary of the restatement to 2007 and 2008 comparative financial information (Continued)

As of December 31, 2008	As previously reported	2009 Business Combination	Eliminations	As restated
Financial position:				
Non-current assets	308,804	1,959	(144)	310,619
Current assets	36,120	3,450	(1,437)	38,133
Total assets	344,924	5,409	(1,581)	348,752
Non-current liabilities	12,995	97		13,092
Current liabilities	125,219	4,062	(1,348)	127,933
Total liabilities	138,214	4,159	(1,348)	141,025
Net assets	206,710	1,250	(233)	207,727

(c) Discontinued Operations

On June 2, 2008, the Company, CUCL and China Telecom entered into the Framework Agreement to dispose of the assets and liabilities in relation to the CDMA business and the disposal was completed on October 1, 2008. In accordance with IFRS/HKFRS 5 Non-current assets held for sale and discontinued operations issued by the IASB/HKICPA (IFRS/HKFRS 5), the results and cash flows of the operations of the CDMA operating segment of the Group have been presented as discontinued operations in the consolidated statements of income and statements of cash flows of the Group for the years ended December 31, 2007 and 2008. The difference between the consideration received and receivable and the book value of net assets disposed of is recorded as gain on disposal of discontinued operations in the consolidated statement of income for the year ended December 31, 2008.

As discussed in Note 1(e), in 2007, CNC China completed its disposal of assets and liabilities in relation to the fixed-line telecommunication operations in Guangdong and Shanghai Branches in the PRC to Netcom Group. After considering that the Guangdong and Shanghai Branches were reacquired by the Group as part of the 2009 Business Combination, the results and cash flows for the operations of Guangdong and Shanghai Branches have not been presented as discontinued operations in the consolidated statement of income and statement of cash flows of the Group for the year ended December 31, 2007, and the previously recorded gain on the disposal amounting to approximately RMB626 million was derecognized in the consolidated statement of income for the year ended December 31, 2007.

For details, please refer to Note 35.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(d) Going Concern Assumption

As of December 31, 2009, current liabilities of the Group exceeded current assets by approximately RMB169.2 billion (2008: approximately RMB89.8 billion). Given the current global economic conditions and the Group s expected capital expenditures in the foreseeable future, management has comprehensively considered the Group s available sources of funds as follows:

The Group s continuous net cash inflow from operating activities;

Revolving banking facilities of approximately RMB113.3 billion, of which approximately RMB58.8 billion was unutilized as of December 31, 2009; and

Other available sources of financing from domestic banks and other financial institutions given the Group s credit history.

In addition, the Group will continue to optimize its fund raising strategy from the short, medium and long-term perspectives and will consider the opportunities in the current capital market to take advantage of low interest rates by issuing medium to long-term debts with low financing cost.

Based on the above considerations, the Board of Directors is of the opinion that the Group has sufficient funds to meet its working capital requirements and debt obligations. As a result, the consolidated financial statements of the Group for the year ended December 31, 2009 have been prepared under the going concern basis.

(e) Critical Accounting Estimates and Judgment

The preparation of the consolidated financial statements in conformity with IFRSs/HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates significant to the consolidated financial statements are disclosed in Note 4.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(f) New Accounting Standards, Amendments and Interpretations Pronouncements

(i) The following revised standard is early adopted by the Group

IAS/HKAS 24 (revised) Related party disclosure (effective from January 1, 2011). The revised standard primarily amends the disclosure requirements applicable to transactions and balances with government-related entities and the government. The revised standard also clarifies and simplifies the definition of a related party. Upon the early adoption of IAS/HKAS 24 (revised), the Group revised the disclosure on the transactions and balances with the major state-owned financial institutions in its related party transactions footnote. Please refer to Note 39 for details.

(ii) The following new and amended IFRSs/HKFRSs are adopted by the Group as of January 1, 2009

IFRS/HKFRS 2 (amendment), Share-based payment (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment does not have any material impact on the Group s consolidated financial statements.

IFRS/HKFRS 7 (amendment) Financial instruments Disclosures (effective from January 1, 2009). The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on net income and earnings per share. Please refer to Note 3 for details.

IFRS/HKFRS 8, Operating segments (effective from January 1, 2009). IFRS/HKFRS 8 replaces IAS/HKAS 14, Segment reporting . The new standard requires a management approach , under which segment information is presented on the same basis as that used for internal reporting purposes.

The adoption of IFRS/HKFRS 8, the completion of 2009 Business Combination and the launch of the WCDMA mobile business in 2009 have not resulted in changes in the number of reportable segments presented and operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM has been identified as the Board of Directors. Starting from 2009, the CODM evaluates results of each operating segment based on revenue and costs that are directly attributable to the operating segment. Other statement of income items such as employee benefit expenses, interest income, income tax expenses, finance costs and other income, which cannot be directly identified to specific operating segments, are presented as unallocated amounts. The 2007 and 2008 comparative financial information has been restated to conform to current year s presentation. Please refer to Note 5 for details.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(f) New Accounting Standards, Amendments and Interpretations Pronouncements (Continued)

(ii) The following new and amended IFRSs/HKFRSs are adopted by the Group as of January 1, 2009 (Continued)

IAS/HKAS 1 (revised) Presentation of financial statements (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (that is, non-owner changes in equity) in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it is also in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on the net income and earnings per share.

IAS/HKAS 23 (Revised), Borrowing costs (effective from January 1, 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. As the Group had previously capitalized borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset, the adoption of IAS/HKAS 23 (revised) does not have any impact on the Group s consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(f) New Accounting Standards, Amendments and Interpretations Pronouncements (Continued)

(ii) The following new and amended IFRSs/HKFRSs are adopted by the Group as of January 1, 2009 (Continued)

IASB s annual improvement project published in May 2008/HKICPA s improvements to HKFRS published in October 2008

- IAS/HKAS 1 (Amendment), Presentation of financial statements (effective from January 1, 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS/HKAS 39, Financial instruments: Recognition and measurement are examples of current assets and liabilities respectively.

- IAS/HKAS 23 (Amendment), Borrowing costs (effective from January 1, 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS/HKAS 39 Financial instruments: Recognition and measurement . This eliminates the inconsistency of terms between IAS/HKAS 39 and IAS/HKAS 23.

- There are a number of amendments to IFRS/HKFRS 7, Financial instruments: Disclosures , IAS/HKAS 8, Accounting policies, changes in accounting estimates and errors , IAS/HKAS 10, Events after the balance sheet date , IAS/HKAS 18, Revenue , IAS/HKAS 19, Employee benefits , IAS/HKAS 27, Consolidated and separate financial statements , IAS/HKAS 34, Interim financial reporting , IAS/HKAS 36, Impairment of assets and IAS/HKAS 40, Investment property which are not addressed in details as the amendments are not relevant to the Group s operations and consolidated financial statements.

The adoption of the IASB s/HKICPA s improvements does not have a material impact on the Group s consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

(f) New Accounting Standards, Amendments and Interpretations Pronouncements (Continued)

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

IFRS/HKFRS 2 (amendments), Group cash-settled share-based payment transactions (effective from January 1, 2010). In addition to incorporating IFRIC/HK(IFRIC)-Int 8, Scope of IFRS/HKFRS 2 ,and IFRIC/HK(IFRIC)-Int 11, IFRS/HKFRS 2 Group and treasury share transactions , the amendments expand on the guidance in IFRIC/HK(IFRIC)-Int 11 to address the classification of group arrangements that were not covered by the interpretations.

IFRS/HKFRS 3 (revised), Business combinations (effective for annual periods beginning on or after July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest s proportionate share of the acquiree s identifiable net assets. All acquisition-related costs should be expensed.

IFRS/HKFRS 9 Financial instrument (effective from January 1, 2013). Under IFRS/HKFRS 9, financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

IAS/HKAS 27 (revised), Consolidated and separate financial statements (effective for annual periods beginning on or after July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interest to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognized in income or loss.

There are a number of new interpretations including IFRIC/HK (IFRIC) 17 Distribution of non-cash assets to owners , IFRIC/HK (IFRIC) 18 Transfer of assets from customers and IFRIC/HK(IFRIC) 19 Extinguishing financial liabilities with equity instruments as well as the amendment to IFRIC/HK(IFRIC) 14 Prepayments of a minimum funding requirement which are not addressed in details as the interpretations and the amendment are not relevant to the Group s operation and consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Basis of Preparation (Continued)

New Accounting Standards, Amendments and Interpretations Pronouncements (Continued)

(iii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

IASB s annual improvement project published in April 2009/HKICPA s improvements to HKFRS published May 2009

- IAS/HKAS 7 (Amendment), Cash flow statements (effective from January 1, 2010). The amendment requires that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities.

- IAS/HKAS 17 (Amendment), Leases (effective from January 1, 2010). The amendment deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance lease or operating lease using the general principles of IAS/HKAS 17.

- IAS/HKAS 36 (Amendment), Impairment of assets (effective from January 1, 2010). The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined by paragraph 5 of IFRS/HKFRS 8, Operating segments (that is, before the aggregation of segments with similar economic characteristics permitted by paragraph 12 of IFRS/HKFRS 8).

- IAS/HKAS 38 (Amendment), Intangible assets (effective for annual periods beginning on or after July 1, 2009). The amendment clarifies that the description of the valuation techniques commonly used to measure intangible assets acquired in a business combination when they are not traded in an active market. In addition, an intangible asset acquired in a business combination might be separable but only together with a related contract, identifiable asset or liability. In such cases, the intangible asset is recognized separately from goodwill but together with the related item.

- There are a number of amendments to IFRS/HKFRS 5, Non-current assets held for sale and discontinued operations , IFRS /HKFRS 8, Operating segments , IAS/HKAS 1, Presentation of financial statements and IAS/HKAS 18, Revenue which are not addressed in details as the amendments are not relevant to the Group s operation and consolidated financial statements.

In addition, improvements to IFRS/HKFRS 2010 were issued in May 2010. There are a number of amendments to IFRS/HKFRS 3 Business combinations , IFRS/HKFRS 7 Financial instruments: disclosures , IAS/HKAS 1 Presentation of financial statements , IAS/HKAS 34 Interim financial reporting and IFRIC/(HK)IFRIC 13 Customer loyalty programmes . The effective dates vary standard by standard but most are effective from January 1, 2011.

The Group is currently evaluating the impact of adopting the above standards, amendments and interpretations on the Group s consolidated financial statements.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to December 31.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. Upon the disposal of subsidiaries, the difference between the consideration received and receivable and the book value of net assets disposed of is recorded as gain/loss on disposal in the consolidated statement of income in the year of disposal.

The Group has acquired the equity interests of certain subsidiaries prior to 2005 (refer to Note 8 for details). Prior to the adoption of HKFRSs in 2005, the Group accounted for the acquisition of subsidiaries under common control in accordance with the original HK SSAP 27 Accounting for Group Reconstructions (HK SSAP 27) under the previous accounting principles generally accepted in Hong Kong and the requirement of the Hong Kong Companies Ordinance. Since the criteria for applying merger accounting under HK SSAP 27 was not satisfied, the purchase method of accounting was used to account for the acquisitions of those subsidiaries (including common control transactions) by the Group prior to 2005.

Under the purchase method of accounting, the cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group s share of the identifiable net assets of the subsidiary acquired, the difference is recognized directly in the statement of income.

Upon the adoption of HKFRSs in 2005, merger accounting is used by the Group to account for the business combination of entities and businesses under common control in accordance with AG 5 issued by the HKICPA. The results of operations and financial position of such entities or businesses at carrying value are included in the consolidated financial statements as if the businesses were always part of the Group from the beginning of the earliest period presented or since the date when the combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Consolidation (Continued)

(a) Subsidiaries (Continued)

Upon the adoption of IFRSs in 2008, the Group has elected not to apply IFRS 3 Business Combination retrospectively to past business combination that occurred prior to January 1, 2005. In addition, the Group 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.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries would be changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

(b) Minority interests

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheets and statements of changes in equity within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated statement of incomes as an allocation of the total income or loss for the year between minority shareholders and the equity holders of the Company.

Where losses applicable to the minority exceed the minority s interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group s interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports income, the Group s interest is allocated all such income until the minority s share of losses previously absorbed by the Group has been recovered.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests that result in gains or losses for the Group are recorded in the consolidated financial statements. Purchases from minority interests result in goodwill, being the difference of any consideration paid and the relevant share of the carrying value of the net assets of the subsidiary acquired.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments regularly, has been identified as the Board of Directors that makes strategic decisions.

2.5 Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group s entities are measured using the currency of the primary economic environment in which the entities operate (the functional currency). The consolidated financial statements are presented in RMB, which is the Company s functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

Income and expenses for each statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

All resulting exchange differences are recognized as a separate component of equity into other reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders equity. When a foreign operation is sold, such exchange differences are recognized in the statement of income as part of the gain or loss on disposal.

For the convenience of the reader, the translation of RMB into United States dollars (US$) has been made at the rate of RMB6.8259 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, 2009.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, Plant and Equipment

(a) Construction-in-progress

Construction-in-progress (CIP) represents buildings, plant and equipment under construction and pending installation, and is stated at cost less accumulated impairment losses. Costs include construction and acquisition costs, and interest charges arising from borrowings used to finance the assets during the construction period. No provision for depreciation is made on construction-in-progress until such time as the assets are completed and ready for use. When the asset being constructed becomes available for use, the CIP is transferred to the appropriate category of property, plant and equipment.

(b) Buildings

Buildings held by the Group are stated at cost less accumulated depreciation and accumulated impairment losses, and are depreciated over their expected useful lives.

(c) Other property, plant and equipment

Other property, plant and equipment comprise telecommunications equipment, leasehold improvements, office furniture, fixtures, motor vehicles and others. The cost of an asset, except for those acquired in exchange for a non-monetary asset or assets, comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

If an item of property, plant and equipment is acquired in exchange for another item of property, plant and equipment, the cost of such an item of property, plant and equipment is measured at fair value unless (i) the exchange transactions lacks commercial substance or (ii) the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Subsequent costs are included in the asset s carrying amount or recognized as a separate asset, as appropriate, only when it is probable at the time the costs are incurred that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of income during the financial period in which they are incurred.

Telecommunications equipment of the Mobile business are stated at cost less accumulated depreciation and accumulated impairment losses. All other property, plant and equipment are stated at revalued amounts less accumulated depreciation and accumulated impairment losses.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Property, Plant and Equipment (Continued)

(c) Other property, plant and equipment (Continued)

When an item of fixed asset is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately together with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount. Increases in valuation are credited to the revaluation reserve. Decreases in valuation are first set off against any revaluation surplus on earlier valuations in respect of the same item and thereafter are debited to statement of income. Any subsequent increases are credited to the statement of income up to the amount previously debited. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the statement of income and depreciation based on the asset s original cost is transferred from the revaluation reserve to retained profits.

Revaluations on fixed assets will be performed with sufficient regularity by independent valuers and in each of the intervening years, valuations are reviewed by directors of the Group. The revalued amount is the fair value at the date of revaluation.

(d) Depreciation

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their costs or revalued amounts less their residual values over their estimated useful lives, as follows:

	Depreciable life	Residual rate
Buildings	10 30 years	3-5%
Telecommunications equipment of Mobile business	5 10 years	3-5%
Telecommunications equipment of Fixed-line business	5 10 years	3-5%
Office furniture, fixtures, motor vehicles and others	5 10 years	3-5%

Leasehold improvements are depreciated over the shorter of their estimated useful lives and the lease periods.

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset s carrying amount is written down immediately to its recoverable amount if the asset s carrying amount is greater than its estimated recoverable amount (Note 2.11).

(e) Gain or loss on disposal of property, plant or equipment

Gains or losses on disposal of a property, plant or equipment are determined by comparing the net sales proceeds with the carrying amounts, and are recognized in the statement of income. When revalued assets are sold, the residual amounts included in the revaluation reserve are transferred to retained profits.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group s share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gain or loss on the disposal of an entity includes the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.8 Lease Prepayments

Lease prepayments represent payments for land use rights. Lease prepayments for land use rights are stated at cost initially and expensed on a straight line basis over the lease period.

2.9 Other Assets

Other assets mainly represent (i) capitalized direct incremental costs for activating mobile subscribers; (ii) capitalized installation costs of fixed-line services; (iii) computer software and (iv) prepaid rental for premises and leased lines.

(i) Capitalized direct incremental costs for activating mobile subscribers, including costs of SIM/USIM cards and commissions which are directly associated with upfront non-refundable revenue received upon activation of mobile services, are deferred and amortized over the expected customer service periods of 3 years except when the direct incremental costs exceed the corresponding upfront non-refundable revenue. In such cases, the excess of the direct incremental costs over the non-refundable revenue are recorded immediately as expenses in the statement of income.

(ii) Capitalized installation costs of Fixed-line business are deferred and expensed to the statement of income over the expected customer service period of 10 years except when the direct incremental costs exceed the corresponding upfront installation fees. In such cases, the excess of the direct incremental costs over the installation fees are recorded immediately as expenses in the statement of income.

(iii) Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives on a straight-line basis.

(iv) Long-term prepaid rental for premises and leased lines are amortized using a straight-line method over the lease period.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group s loans and receivables comprise accounts receivable and other receivables , short-term bank deposits and cash and cash equivalents in the balance sheet (Note 2.14, 2.15 and 2.16).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Financial Assets (Continued)

2.10.2 Recognition and measurement

Available-for-sale financial assets are carried at fair value. Loans and receivables are recognized initially at fair value and subsequently carried at amortized cost using the effective interest method.

The translation differences on non-monetary securities are recognized in other comprehensive income/loss. Changes in the fair value of non-monetary securities classified as available-for-sale are recognized in other comprehensive income/loss until impairment.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the statement of income as gains and losses from investment securities .

Interest on available-for-sale securities calculated using the effective interest method is recognized in the statement of income as part of other income. Dividends on available-for-sale equity instruments are recognized in the statement of income as part of other income when the right to receive payments is established.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.11 Impairment of Non-Financial Assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested for impairment at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of (i) an asset s fair value less costs to sell and (ii) value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered from impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Impairment of Financial Assets

(a) Accounts receivable and other receivables

The Group assesses at the end of each reporting period whether there is objective evidence that accounts receivable and other receivable are impaired. A provision for impairment of accounts receivable and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the assets carrying amount and the present value of estimated future cash flows which is discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of a provision account, and the amount of the loss is recognized in the statement of income. When a receivable is proven to be uncollectible with sufficient evidence, it is written off against the provision account for receivables. Subsequent recoveries of amounts previously written off are credited in the statement of income.

(b) Available-for-sale financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that available-for-sale financial assets are impaired. For equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in income or loss is removed from equity and recognized in the statement of income. Impairment losses recognized in the statement of income on equity instruments are not reversed.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Inventories and Consumables

Inventories, which primarily comprise handsets, SIM/USIM cards and accessories, are stated at the lower of cost and net realizable value. Cost is based on the first-in-first-out method and comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realizable value for all the inventories is determined on the basis of anticipated sales proceeds less estimated selling expenses.

Consumables consist of materials and supplies used in maintaining the Group s telecommunication networks and are charged to the statement of income when brought into use. Consumables are stated at cost less any provision for obsolescence.

2.14 Accounts Receivable and Other Receivables

Accounts receivable are amounts due from customers for services performed in the ordinary course of business. If collection of accounts receivable and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

2.15 Short-term Bank Deposits

Short-term bank deposits are cash invested in fixed-term deposits with original maturities ranging from more than 3 months to 1 year.

2.16 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of 3 months or less.

2.17 Convertible Bonds

As the functional currency of the Company is RMB, the conversion of the convertible bonds denominated in Hong Kong Dollars would not result in settlement by the exchange of a fixed amount of cash in RMB, the functional currency of the Company, for a fixed number of the Company s shares. In accordance with the requirements of IAS/HKAS 39, Financial Instruments Recognition and Measurement , the convertible bond contract must be separated into two component elements: a derivative component consisting of the conversion option and a liability component consisting of the straight debt element of the bonds.

On the issue of the convertible bonds, the fair value of the embedded conversion option was calculated using the Binomial model. The derivative component, the embedded conversion option, was carried at fair value on the balance sheet with any changes in fair value being charged or credited to the statement of income in the period when the change occurred. The remainder of the proceeds was allocated to the debt element of the bonds, net of transaction costs, and was recorded as the liability component. The liability component was subsequently carried at amortized cost until extinguished on conversion or redemption. Interest expense was calculated using the effective interest method by applying the effective interest rate to the liability component through the maturity date.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Convertible Bonds (Continued)

When the convertible bonds were converted, the carrying amounts of the derivative and liability components were transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds had been redeemed, any difference between the amount paid and the carrying amounts of both components would have been recognized in the statement of income.

2.18 Deferred Revenue, Advances from Customers and Subscriber Point Rewards Program

(a) Deferred revenue

Deferred revenue mainly represents upfront non-refundable revenue, including upfront connection fees and installation fees of fixed-line business and receipts from the activation of SIM/USIM cards relating to the Mobile business, which are deferred and recognized over the expected customer service period.

(b) Advances from customers

Advances from customers are amounts paid by customers for prepaid cards, other calling cards and prepaid service fees, which cover future telecommunications services (over a period of one to twelve months). Advances from customers are stated at the amount of proceeds received less the amount already recognized as revenues upon the rendering of services.

(c) Subscriber point rewards program

The fair value of providing telecommunications services and the subscriber points reward are allocated based on their relative fair values. The allocated portion of fair value for the subscriber points reward is recorded as deferred revenue when the rewards are granted and recognized as revenue when the points are redeemed or expired. The fair value of deferred revenue is estimated based on (i) the value of each bonus point awarded to subscribers, (ii) the number of bonus points related to subscribers who are qualified or expected to be qualified to exercise their redemption right at each balance sheet date, and (iii) the expected bonus points redemption rate. The fair value of the outstanding subscriber points reward is subject to review by management on a periodic basis.

2.19 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issuance of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company s equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of tax) is deducted from equity attributable to the Company s equity holders and no gain or loss shall be recognized in the statement of income.

2.21 Employee Benefits

(a) Retirement benefits

The Group participates in defined contribution pension schemes. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expenses when they are due. Prepaid contributions are recognized as an asset to the extent that a reduction in the future payments is available.

(b) Early retirement benefits

Early retirement benefits are recognized as expenses when the Group reaches agreement with the relevant employees for early retirement.

(c) Housing benefits

One-off cash housing subsidies paid to PRC employees are charged to the statement of income in the year in which it is determined that the payment of such subsidies is probable and the amounts can be reasonably estimated.

The Group s contributions to the housing fund, special monetary housing benefits and other housing benefits are expensed as incurred. The Group has no further payment obligations once the contributions have been paid.

(d) Share-based compensation costs

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the share options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted at the granted date excluding the impact of any non-market vesting conditions (for example, revenue and profit targets) and is not subsequently remeasured. However, non-market vesting conditions are considered in determining the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of share options that are expected to vest. The Group recognizes the impact of the revision of original estimates, if any, in the statement of income of the period in which the revision occurs, with a corresponding adjustment to equity.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.21 Employee Benefits (Continued)

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the share options are exercised. The corresponding employee share-based compensation reserve is transferred to share premium.

In connection with the 2008 Business Combination (Note 1), the exchange of China Netcom s options to the Company s options was accounted for as a modification in accordance with IFRS/HKFRS 2 Share-based payment issued by the IASB/HKICPA (IFRS/HKFRS 2). The incremental fair value of the exchanged options measured before and after the modification is to be recognized as follows:

For vested options, the incremental share-based compensation costs are recognized in the statement of income immediately;

For non-vested options, the incremental share-based compensation costs are recognized in the statement of income over the remaining vesting period.

2.22 Accounts Payable

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accounts payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.23 Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the pre-tax amount of expenditures expected to be required to settle the obligation that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

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2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

2.24 Discontinued Operations

A discontinued operation is a component of the Group that may be a major line of business or geographical area of operations that has been disposed of or is held for sale. The results and cash flows of that component are separately reported as discontinued operations in the statement of income and statement of cash flows, respectively. The difference between the consideration received and receivable and the book value of net assets disposed of is recorded as gain/loss on disposal in the consolidated statement of income in the year of disposal. The comparative statement of income and statement of cash flows are also reclassified as discontinued operations . The assets and liabilities of such component classified as held for sale is presented separately in assets and liabilities, respectively, of the consolidated balance sheet, from the date it is first determined to be discontinued operations or assets/liabilities held for sale, and are de-recognized upon the completion of the disposal.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the services and sales of goods or telecommunications products in the ordinary course of the Group s activities. Revenue is shown net of business tax, government surcharges, returns and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group s activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration of the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of services and goods

Usage fees and monthly fees are recognized when the service are rendered;

Revenues from the provision of broadband and other Internet-related services and managed data services are recognized when the services are provided to customers;

Revenue from telephone cards, which represents service fees received from customers for telephone services, is recognized when the related service is rendered upon actual usage of the telephone cards by customers;

Lease income from leasing of lines and customer-end equipment are treated as operating leases with rental income recognized on a straight-line basis over the lease term;

Value-added services revenue, which mainly represents revenue from the provision of services such as short message, cool ringtone, personalized ring, caller number display and secretarial services to subscribers, is recognized when service is rendered;

Standalone sales of telecommunications products, which mainly represent handsets and accessories, are recognized when title has been passed to the buyers;

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue Recognition (Continued)

(a) Sales of services and goods (Continued)

For offerings which include the sale of mobile handset and provision of service, the amount of revenue allocated to the handset sale is determined using the residual value method. Under such method, the Group determines the revenue from the sale of the mobile handset by deducting the fair value of the service element from the total contract consideration. The Group recognizes revenues related to the sale of the handset when the title is passed to the customer whereas service revenues are recognized based upon the actual usage of mobile services. The cost of the mobile handset is expensed immediately to the statement of income.

Revenue from information communications technology services are recognized when goods are delivered to the customers (which generally coincides with the time when the customers have accepted the goods and the related risks and rewards of ownership have been transferred to the customers) or when services are rendered to the customers using the percentage of completion method when the outcome of the services provided can be estimated reliably. If the outcome of the services provided cannot be estimated reliably, the treatment should be as follows: (i) if it is probable that the costs incurred for the services provided is recoverable, services revenue should be recognized only to the extent of recoverable costs incurred, and costs should be recognized as current expenses in the period in which they are incurred; (ii) if it is probable that costs incurred will not be recoverable, costs should be recognized as current expenses immediately and services revenue should not be recognized.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.25 Revenue Recognition (Continued)

(b) Interest income

Interest income from deposits in banks or other financial institutions is recognized on a time proportion basis, using the effective interest method.

(c) Dividend income

Dividend income is recognized when the right to receive payment is established.

2.26 Leases (as the lessee)

(a) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including long-term prepayment for land use rights, are expensed in the statement of income on a straight-line basis over the period of the lease.

(b) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of interest on the liability balance outstanding. The corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. The interest element implicit in the lease payment is recognized in the statement of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

2.27 Borrowing Costs

Borrowing costs are expensed as incurred, except for interest directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use, in which case they are capitalized as part of the cost of that asset. Capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalized up to the date when the project is completed and ready for its intended use.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.27 Borrowing Costs (Continued)

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined at the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized during a period should not exceed the amount of borrowing cost incurred during that period. Other borrowing costs are recognized as expenses when incurred.

2.28 Taxation

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of the amount expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax 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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.29 Government Grant

Government grants are recognized at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants relating to assets are included in non-current liabilities, which are credited to the statement of income on a straight-line basis over the expected lives of the related assets. Grants relating to costs are deferred and recognized in the statement of income over the period necessary to match them with the costs that they are intended to compensate.

2.30 Dividend Distribution

Dividend distribution to the Company s shareholders is recognized as a liability in the Company s financial statements in the period in which the dividends are approved by the Company s shareholders.

2.31 Contingent Liabilities and Contingent Assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, the liability will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognized.

2.32 Earnings per Share and per American Depositary Share (ADS)

Basic earnings per share is computed by dividing the profit attributable to equity holders by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is computed by dividing the profit attributable to equity holders by the weighted average number of ordinary shares, after adjusting for the effects of the dilutive potential ordinary shares.

Basic and diluted earnings per ADS are computed by multiplying earnings per share by 10, which is the number of shares represented by each ADS.

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3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group s activities expose it to a variety of financial risks: market risk (including currency risk, price risk, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group s overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group s financial performance.

Financial risk management is carried out by the Group s finance department at its headquarters, following the overall direction determined by the Board of Directors. The Group s finance department identifies and evaluates financial risks in close co-operation with the Group s operating units.

(a) Market risk

(i) Foreign exchange risk

The Group s major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars, HK dollars and Euro. Exchange risk mainly exists with respect to the repayment of indebtedness to foreign lenders and payables to equipment suppliers and contractors.

The Group s finance department at its headquarters is responsible for monitoring the amount of monetary assets and liabilities denominated in foreign currencies. From time to time, the Group may consider entering into forward exchange contracts or currency swap contracts to mitigate the foreign exchange risk. During the year, the Group had not entered into any forward exchange contracts or currency swap contracts.

As of December 31, 2009 and 2008, the Group had cash and cash equivalents and short-term bank deposits denominated in foreign currencies amounting to RMB1,545 million and RMB1,315 million, respectively. As of December 31, 2009 and 2008, the Group had borrowings denominated in foreign currencies amounting to RMB11,730 million and RMB1,099 million, respectively.

As of December 31, 2009, if the RMB had strengthened/weakened by 10% against foreign currencies, primarily with respect to US dollars, HK dollars and Euro, while all other variables are held constant, the Group would have recognized additional exchange gains/losses of approximately RMB1, 019 million (2008: exchange losses/gains of approximately RMB22 million) for cash and cash equivalents, short-term bank deposits and borrowings denominated in foreign currencies.

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3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified in the consolidated balance sheet as available-for-sale financial assets.

The available-for-sale financial assets comprise primarily equity securities of Telefónica. As of December 31, 2009, if the share price of Telefónica had increased/decreased by 10%, while all other variables are held constant, the Group would have reversed the recognized losses or recognized additional losses of approximately RMB584 million in available-for-sale fair value reserve.

(ii) Cash flow and fair value interest rate risk

The Group s interest-bearing assets are mainly represented by bank deposits, management does not expect the changes in market deposit interest rates will have significant impact on the financial statements as the deposits are all short-term in nature and the interest involved will not be significant.

The Group s interest rate risk arises from interest bearing borrowings including bank loans, corporate bonds, commercial paper and related party loan. Borrowings issued at floating rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the amount of its fixed rate or floating rate borrowings depending on the prevailing market conditions. During 2009 and 2008, the Group s borrowings were mainly at fixed rates and were mainly denominated in RMB.

Increases in interest rates will increase the cost of new borrowing and the interest expense with respect to the Group s outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group s financial position. Management continuously monitors the interest rate position of the Group and makes decisions with reference to the latest market conditions. From time to time, the Group may enter into interest rate swap agreements designed to mitigate its exposure to interest rate risks in connection with the floating rate borrowings, although the Group did not consider it was necessary to do so in 2009 and 2008.

As of December 31, 2009, the Group had approximately RMB62,925 million (2008: approximately RMB28,879 million) of bank loans, commercial paper and corporate bonds at fixed rates and approximately RMB10,909 million (2008: approximately RMB1,114 million) of bank loans and related party loan at floating rates.

For the year ended December 31, 2009, if interest rates on the floating rate borrowings had been 10% higher/lower while all other variables are held constant, the interest expenses would have increased/decreased by approximately RMB3 million (2008: approximately RMB125 million).

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3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents and short-term bank deposits with banks, as well as credit exposures to corporate customers, individual subscribers, related parties and other operators.

The table below shows the bank deposits and cash and cash equivalents balances held at the major banks by the Group as of December 31, 2008 and 2009:

	2008 (As restated)	**2009**
Short-term bank deposits		
State-owned banks in the PRC	337	861
Other banks		135
	337	996
Cash and cash equivalents		
State-owned banks in the PRC	9,671	7,485
Other banks	566	335
	10,237	7,820

The Group expects that there is no significant credit risk associated with the bank deposits and cash and cash equivalents since the state-owned banks have support from the government and other banks are medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has no significant concentrations of credit risk with respect to corporate customers and individual subscribers. The extent of the Group s credit exposure is mainly represented by the fair value of accounts receivable for services. The Group has policies to limit the credit exposure on accounts receivable for services. The Group assesses the credit quality of and sets credit limits on all its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The normal credit period granted by the Group is on average between 30 days to 90 days from the date of billing. The utilization of credit limits and the settlement pattern of the customers are regularly monitored by the Group.

Credit risk relating to amounts due from related parties and other operators is not considered to be significant as these companies are reputable and their receivables are settled on a regular basis.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and availability of funds including short-term bank loans, commercial paper and the issuance of bonds. Due to the dynamic nature of the underlying businesses, the Group s finance department at its headquarters maintains flexibility in funding through having adequate amount of cash and cash equivalents and utilizing different sources of financing when necessary.

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3. FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

The following tables show the undiscounted balances of the financial liabilities (including interest expense) categorized by time period from the balance sheet date to the contractual maturity date.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
At December 31, 2008 (As restated)				
Long-term bank loans	1,299	108	315	635
Corporate bonds	355	355	6,064	2,360
Other obligations	3,012	400	1,052	924
Accounts payable and accrued liabilities	65,248			
Amounts due to related parties	1,658			
Amounts due to domestic carriers	956			
Payables in relation to disposal of the CDMA business	4,232			
Commercial paper	10,447			
Short-term bank loans	11,013			
	98,220	863	7,431	3,919
At December 31, 2009				
Long-term bank loans	72	62	185	562
Corporate bonds	355	355	5,726	2,229
Other obligations	2,537	111	18	60
Accounts payable and accrued liabilities	101,551			
Amounts due to related parties	5,448			
Amounts due to ultimate holding company	308			
Amounts due to domestic carriers	1,136			
Payables in relation to disposal of the CDMA business	7			
Short-term bank loans	64,752			
	176,166	528	5,929	2,851

Regarding the Group s use of the going concern basis for the preparation of its financial statements, please refer to Note 2.2(d) for details.

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3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management

The Group s objectives when managing capital are:

To safeguard the Group s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

To support the Group s stability and growth.

To provide capital for the purpose of strengthening the Group s risk management capability.

In order to maintain or adjust the capital structure, the Group reviews and manages its capital structure actively and regularly to ensure optimal capital structure and shareholder returns, taking into account the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities.

The Group monitors capital on the basis of the debt-to-capitalization ratio. This ratio is calculated as interest bearing debts plus minority interest over interest bearing debts plus total equity. Interest bearing debts represent commercial paper, short-term bank loans, long-term bank loans, obligations under finance lease (included in other obligations), notes payables (included in accounts payable and accrued liabilities), certain amounts due to related parties and corporate bonds, as shown in the consolidated balance sheet. Total equity represents capital and reserves attributable to the Company s equity holders plus minority interest as shown in the consolidated balance sheet.

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3. FINANCIAL RISK MANAGEMENT (Continued)

3.2 Capital risk management (Continued)

The Group s debt-to-capitalization ratios at December 31, 2008 and 2009 are as follows:

	2008 (As restated)	2009
Interest bearing debts:		
Commercial paper	10,000	
Short-term bank loans	10,780	63,909
Long-term bank loans	997	759
Obligation under finance lease included in other obligations		103
Amounts due to related parties		2,104
Notes payables included in accounts payable and accrued liabilities		500
Corporate bonds	7,000	7,000
Current portion of long-term bank loans	1,216	62
Current portion of obligation under finance lease		26
	29,993	74,463
Minority interest	2	2
Interest bearing debts plus minority interest	29,995	74,465
Total equity:		
Capital and reserves attributable to the Company s equity holders	207,725	206,465
Minority interest	2	2
	207,727	206,467
Interest bearing debts plus total equity	237,720	280,930
Debt-to-capitalization ratio	12.6%	26.5%

The increase in debt-to-capitalization ratio during 2009 resulted primarily from the borrowing of short-term bank loans to finance the telecommunications networks construction and the off-market share repurchase completed during the year.

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3. FINANCIAL RISK MANAGEMENT (Continued)

3.3 Fair value estimation

Effective from January 1, 2009, the Group adopted the amendment to IFRS/HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group s assets that are measured at fair value at December 31, 2009:

	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
Equity securities	7,977			7,977

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm s length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1 and comprise primarily equity securities of Telefónica which are classified as available-for-sale.

During the year ended December 31, 2009, there were no transfers of financial instruments between Level 1 and Level 2 of the fair value hierarchy.

In addition, the estimate of fair value of the Company s options is determined by using valuation techniques. The Group selects an appropriate valuation method and makes assumptions with reference to market conditions existing at each valuation date. For details, please refer to Note 34.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates may not be equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Depreciation on property, plant and equipment

Depreciation on the Group s property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts up to residual values over the estimated useful lives of the assets. The Group reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with the expected pattern of realization of economic benefits from property, plant and equipment. The Group estimates the useful lives of property, plant and equipment based on historical experience, taking into account anticipated technological changes. If there are significant changes from previously estimated useful lives, the amount of depreciation expenses may change.

(b) Revaluation of property, plant and equipment

Property, plant and equipment other than buildings and telecommunications equipment of the Mobile business (Note 2.6 (c)) is carried at revalued amounts, being the fair value at the date of revaluation, less subsequent accumulated depreciation and accumulated impairment losses. Such equipment is revalued on a depreciated replacement cost or open market value approach, as appropriate, by an independent valuer on a regular basis.

During the intervals of independent revaluations, management performs the analysis and assessment annually to determine whether the fair value of property, plant and equipment carried at revalued amounts are materially different from their carrying amount. If the revalued amounts differ significantly from the carrying amounts of such property, plant and equipment in the future, the carrying amounts will be adjusted to the revalued amounts. The key assumptions made to determine the revalued amounts include the estimated replacement costs and the estimated useful lives of the property, plant and equipment. This will have an impact on the Group s future results, since any subsequent decreases in valuation are first set off against increases on earlier valuations in respect of the same item and thereafter are charged as an expense to the statement of income and any subsequent increases are credited as income to the statement of income up to the amount previously charged to the statement of income and thereafter are credited to equity. In addition, the depreciation expenses in future periods will change as the carrying amounts of such property, plant and equipment change as a result of the revaluation.

Most of the Group s property, plant and equipment which are carried at revalued amounts were revaluated as of December 31, 2006 by an independent valuation firm. The directors of the Company consider the fair values of these revalued property, plant and equipment were not materially different from their carrying values as of December 31, 2009.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(c) Impairment of non-current assets

The Group tests whether non-current assets have suffered from any impairment, in accordance with the accounting policy stated in Note 2.11. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. Management estimates value in use based on estimated discounted pre-tax future cash flows of the cash generating unit at the lowest level to which the asset belongs. If there is any significant change in management s assumptions, including discount rates or growth rates in the future cash flow projection, the estimated recoverable amounts of the non-current assets and the Group s results would be significantly affected. Such impairment losses are recognized in the statement of income, except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case the impairment loss is treated as a revaluation decrease and charged to the revaluation reserve. Accordingly, there will be an impact to the future results if there is a significant change in the recoverable amounts of the non-current assets.

No impairment loss on property, plant and equipment was recognized for the years ended December 31, 2007 and 2009. An impairment loss of RMB11,837 million on equipment in relation to the Personal Handyphone System (PHS) services was recognized for the year ended December 31, 2008. For details, please refer to Note 6.

(d) Provision for doubtful debts

Accounts receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. The Group evaluates specific accounts receivable where there are indications that the receivable may be doubtful or is not collectible. The Group records a provision based on its best estimates to reduce the receivable balance to the amount that is expected to be collected. For the remaining receivable balances as of each reporting date, the Group makes a provision based on observable data indicating that there is a measurable decrease in the estimated future cash flows from the remaining balances. The Group makes such estimates based on its past experience, historical collection patterns, subscribers creditworthiness and collection trends. For general subscribers, the Group makes a full provision for receivables aged over 3 months, which is consistent with its credit policy with respect to the relevant subscribers.

The Group s estimates described above are based on past experience, historical collection patterns, subscribers creditworthiness and collection trends. If circumstances change (e.g. due to factors including developments in the Group s business and the external market environment), the Group may need to re-evaluate its policies on doubtful debts, and make additional provisions in the future.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.1 Critical accounting estimates and assumptions (Continued)

(e) Income tax and deferred taxation

The Group estimates its income tax provision and deferred taxation in accordance with the prevailing tax rules and regulations, taking into account any special approvals obtained from relevant tax authorities and any preferential tax treatment to which it is entitled in each location or jurisdiction in which the Group operates. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

For temporary differences which give rise to deferred tax assets, the Group has assessed the likelihood that the deferred tax assets could be recovered. Major deferred tax assets relate to impairment loss on property, plant and equipment, unrecognized revaluation surplus on property, plant and equipment under PRC tax regulations, and provision for doubtful debts. Due to the effects of these temporary differences on income tax, the Group has recorded deferred tax assets amounting to approximately RMB5,202 million as of December 31, 2009 (2008: approximately RMB5,334 million). Deferred tax assets are recognized based on the Group s estimates and assumptions that they will be recovered from taxable income arising from continuing operations in the foreseeable future.

The Group believes it has recorded adequate income tax provision and deferred taxes based on the prevailing tax rules and regulations and its current best estimates and assumptions. In the event that future tax rules and regulations or related circumstances change, adjustments to income tax and deferred taxation may be necessary which would impact the Group s results or financial position.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.2 Critical judgments in applying the Group s accounting policies

(a) Recognition of upfront non-refundable revenue and direct incremental costs

The Group defers and amortizes upfront activation fees of SIM/USIM cards of the Mobile business over the expected customer service period of 3 years (2007: approximately 3 years; 2008: approximately 3 years). The related direct incremental costs of acquiring and activating mobile subscribers, including costs of SIM/USIM cards and commissions, are also capitalized and amortized over the same expected customer service period of 3 years.

The Group defers and amortizes upfront customer connection and installation fees of the Fixed-line business over the expected customer service period of 10 years (2007: approximately 10 years; 2008: approximately 10 years). The related direct incremental installation costs are deferred and amortized over the same expected customer service period of 10 years.

The Group only capitalizes costs to the extent that they will generate future economic benefits. The excess of the direct incremental costs over the corresponding upfront non-refundable revenue, if any, are expensed to the statement of income immediately.

The Group estimates the expected customer service period based on the historical customer retention experience and after factoring in the expected level of future competition, the risk of technological or functional obsolescence to the Group s services, technological innovation, and the expected changes in the regulatory and social environment. If the Group s estimate of the expected customer service period changes as a result of increased competition, changes in telecommunications technology or other factors, the amount and timing of recognition of the deferred revenues and direct incremental costs may change for future periods.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.2 Critical judgments in applying the Group s accounting policies (Continued)

(b) 2009 Business Combination

The 2009 Business Combination was considered as a business combination of entities and business under common control, and has been accounted for using merger accounting under HKFRS, which is consistent with the predecessor values method under IFRS.

Pursuant to the agreement dated December 16, 2008, the 2009 Business Combination excluded the Telecommunications Networks in Southern China, which are retained by Unicom New Horizon and are leased from Unicom New Horizon to CUCL effective from January 2009. To better reflect the economic substance that the Group has not taken on the risks and rewards associated with the property, plant and equipment and related non-current assets and liabilities relating to the Fixed-line business in Southern China, the consolidated balance sheet as of December 31, 2008, restated in accordance with the principle of the merger accounting/predecessor values method, therefore included only the relevant current assets of approximately RMB999 million and current liabilities of approximately RMB2,841 million of the Fixed-line Business in Southern China but excluded the underlying property, plant and equipment and related non-current assets with net book value of approximately RMB31,350 million, the related long-term intercompany loans from Unicom Group for the financing of the construction of the Telecommunications Networks in Southern China of approximately RMB35,652 million and the related payables to network contractors and equipment suppliers of approximately RMB6,176 million. In addition, the consolidated statements of income for the years ended December 31, 2007 and 2008, again restated in accordance with the principle of the merger accounting/predecessor values method, included all the revenues and operating costs of the Fixed-line Business in Southern China, but excluded the depreciation and amortization charges of approximately RMB3,650 million and RMB3,886 million, respectively, and the finance costs associated with the long-term intercompany loans for the financing of the construction of the Telecommunications Networks in Southern China of approximately RMB499 million and RMB846 million, respectively.

The 2009 Business Combination was completed on January 31, 2009 and therefore the consolidated statement of income for the year ended December 31, 2009 has excluded the depreciation and amortization charges of approximately RMB308 million of the property, plant and equipment and related non-current assets relating to the Fixed-line business in Southern China and the finance costs associated with the long-term intercompany loans for the financing of the construction of the Telecommunications Networks in Southern China of approximately RMB26 million for the period from January 1, 2009 to January 31, 2009. After the completion of the 2009 Business Combination, the Group recorded leasing fees amounting to approximately RMB2.0 billion charged by Unicom New Horizon for the lease of the Telecommunications Networks in Southern China for the year ended December 31, 2009 (2007:Nil; 2008:Nil) (Note 4.2(c)).

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

4.2 Critical judgments in applying the Group s accounting policies (Continued)

(c) Lease of Telecommunications Networks in Southern China

Pursuant to the Network Lease Agreement (Note 1(b)), Unicom New Horizon has the legal ownership of the Telecommunications Networks in Southern China. The Group believes it only bears the risks associated with the operation of the Fixed-line business in Southern China during the relevant leasing periods and is free from any ownership risks of the telecommunications networks, and the risks and rewards of ownership of the leased assets rest substantially with the lessor. Accordingly, the Group has accounted for the leasing of the aforementioned telecommunications networks as an operating lease.

(d) PRC Tax Resident Enterprise

Pursuant to the PRC enterprise income tax law, a 10% withholding income tax is levied on dividends declared on or after January 1, 2008 by foreign investment enterprises to their foreign enterprise shareholders unless the enterprise investor is deemed as a PRC Tax Resident Enterprise (TRE). On April 22, 2009, the PRC State Administration of Taxation issued a notice regarding the determination of PRC TRE status and provided implementation guidance in withholding income tax for non-TRE enterprise shareholders. The Company performed an assessment and concluded that it meets the definition of PRC TRE. Therefore, as of December 31, 2008 and 2009, the Company s subsidiaries in the PRC did not accrue for withholding tax on dividends distributed to the Company and there has been no deferred tax liability accrued in the Group s consolidated financial statements for the undistributed income of the Company s subsidiaries in the PRC.

If the results of the Company s assessment change, the amount of current income tax and deferred income tax will change in future periods.

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5. SEGMENT INFORMATION

The CODM has been identified as the Board of Directors (the BOD) of the Company which regularly reviews the Group s internal reporting in order to assess performance and allocate resources; and determines the operating segments based on these reports. The BOD considers the business from the provision of services perspective instead of the geographic perspective. Accordingly, the Group s continuing operations comprise two operating segments based on the various types of telecommunications services, mainly provided to customers in Mainland China.

The major operating segments of the Group are classified as follows:

Continuing operations:

Mobile business the provision of GSM and WCDMA cellular and related services in all 31 provinces, municipalities and autonomous regions in Mainland China;

Fixed-line business the provision of fixed-line telecommunications and related services, domestic and international data and Internet related services, and domestic and international long distance and related services in all 31 provinces, municipalities and autonomous regions in Mainland China.

Discontinued operations:

CDMA business the provision of the CDMA telephone and related services, through a leasing arrangement for the CDMA network capacity from Unicom New Horizon. The CDMA business was disposed of in October 2008.

Starting from 2009, the CODM evaluates results of each operating segment based on revenue and costs that are directly attributable to the operating segments. The unallocated amounts primarily represent corporate and shared service expenses that are not directly allocated to one of the aforementioned operating segments. The unallocated amounts also included other statement of income items such as employee benefit expenses, interest income, income tax expenses, finance costs and other income, which cannot be directly identified to specific operating segments. Segment assets primarily comprise property, plant and equipment, other assets, inventories and receivables. Segment liabilities primarily comprise operating liabilities. The 2007 and 2008 comparative financial information has been restated to conform to current year s presentation.

Revenues between segments are carried out on terms comparable to those that prevail in arm s length transactions or at standards promulgated by relevant government authorities. Revenue from external customers reported to the CODM is measured in a manner consistent with that in the consolidated statement of income.

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5. SEGMENT INFORMATION (Continued)

5.1 Operating Segments (Continued)

	2007 (As restated)							
	Continuing operations						Discontinued operations	
				Reconciling items				
	Mobile business	Fixed-line business	Subtotal	Unallocated amounts	Eliminations	Total continuing operations	CDMA business	Total
Telecommunications service revenue	62,236	91,093	153,329	420		153,749	25,943	179,692
Information communication technology services and other revenue	187	4,782	4,969	228		5,197	318	5,515
Sales of telecommunications products	14	980	994			994	4,888	5,882
Total revenue from external customers	62,437	96,855	159,292	648		159,940	31,149	191,089
Intersegment revenue	276	3,779	4,055	980	(5,035)			
Total revenue	62,713	100,634	163,347	1,628	(5,035)	159,940	31,149	191,089
Interconnection charges	(10,022)	(6,152)	(16,174)		3,976	(12,198)	(2,116)	(14,314)
Depreciation and amortization	(18,843)	(27,399)	(46,242)	(1,383)		(47,625)	(632)	(48,257)
Networks, operations and support expenses	(2,905)	(6,228)	(9,133)	(8,817)	73	(17,877)	(10,203)	(28,080)
Employee benefit expenses				(19,549)	151	(19,398)	(1,823)	(21,221)
Other operating expenses	(6,779)	(15,218)	(21,997)	(15,159)	803	(36,353)	(15,227)	(51,580)
Finance costs				(3,897)	656	(3,241)	(15)	(3,256)
Interest income				961	(656)	305	15	320
Realized loss on changes in fair value of derivative component of convertible bonds				(569)		(569)		(569)
Other income net				5,100		5,100	7	5,107
	24,164	45,637	69,801	(41,685)	(32)	28,084	1,155	29,239

Segment income/(loss) before income tax							
Income tax expenses					(7,175)	(499)	(7,674)
Net income					20,909	656	21,565
Attributable to:							
Equity holders of the Company					20,909	656	21,565
Minority interest							
					20,909	656	21,565
Other information:							
Provision for doubtful debts	(1,258)	(994)	(2,252)	(8)	(2,260)	(395)	(2,655)
Capital expenditures for segment assets (a)	16,332	20,040	36,372	9,812	46,184		46,184

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5. SEGMENT INFORMATION (Continued)

5.1 Operating Segments (Continued)

	2008 (As restated)							
	Continuing operations						Discontinued operations (up to effective date of disposal)	
				Reconciling items				
	Mobile business	Fixed-line business	Subtotal	Unallocated amounts	Eliminations	Total continuing operations	CDMA business	Total
Telecommunications service revenue	64,240	88,254	152,494	337		152,831	18,951	171,782
Information communication technology services and other revenue	359	4,339	4,698	364		5,062	92	5,154
Sales of telecommunications products	532	1,362	1,894	5		1,899	3,253	5,152
Total revenue from external customers	65,131	93,955	159,086	706		159,792	22,296	182,088
Intersegment revenue	265	3,407	3,672	1,214	(4,886)			
Total revenue	65,396	97,362	162,758	1,920	(4,886)	159,792	22,296	182,088
Interconnection charges	(10,753)	(5,776)	(16,529)		3,491	(13,038)	(1,661)	(14,699)
Depreciation and amortization	(18,551)	(27,782)	(46,333)	(1,628)		(47,961)	(411)	(48,372)
Networks, operations and support expenses	(2,279)	(5,757)	(8,036)	(10,873)	173	(18,736)	(7,777)	(26,513)
Employee benefit expenses				(20,967)	209	(20,758)	(1,600)	(22,358)
Other operating expenses	(9,054)	(13,901)	(22,955)	(15,746)	953	(37,748)	(8,966)	(46,714)
Finance costs				(3,137)	714	(2,423)	(6)	(2,429)
Interest income				979	(714)	265	10	275
Impairment loss on property, plant and equipment		(11,837)	(11,837)			(11,837)		(11,837)
Other income net				2,097		2,097	22	2,119

Segment income/(loss) before income tax	24,759	32,309	57,068	(47,355)	(60)	9,653	1,907	11,560
Income tax expenses						(1,828)	(469)	(2,297)
Gain on disposal of the CDMA business							26,135	26,135
Net income						7,825	27,573	35,398
Attributable to:								
Equity holders of the Company						7,826	27,572	35,398
Minority interest						(1)	1	
						7,825	27,573	35,398
Other information:								
Provision for doubtful debts	(1,371)	(1,639)	(3,010)	(15)		(3,025)	(383)	(3,408)
Capital expenditures for segment assets (a)	33,852	31,540	65,392	5,471		70,863		70,863

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5. SEGMENT INFORMATION (Continued)

5.1 Operating Segments (Continued)

	2009					
	Continuing operations					
				Reconciling items		
	Mobile business	Fixed-line business	Subtotal	Unallocated amounts	Eliminations	Total continuing operations
Telecommunications service revenue	69,769	79,549	149,318	275		149,593
Information communication technology services and other revenue	252	1,611	1,863	326		2,189
Sales of telecommunications products	1,970	193	2,163			2,163
Total revenue from external customers	71,991	81,353	153,344	601		153,945
Intersegment revenue	219	4,237	4,456	1,587	(6,043)	
Total revenue	72,210	85,590	157,800	2,188	(6,043)	153,945
Interconnection charges	(13,104)	(4,292)	(17,396)		4,441	(12,955)
Depreciation and amortization	(17,847)	(28,264)	(46,111)	(1,505)	29	(47,587)
Networks, operations and support expenses	(2,496)	(5,780)	(8,276)	(13,471)	19	(21,728)
Leasing fee for telecommunications networks in Southern China		(2,000)	(2,000)			(2,000)
Employee benefit expenses				(22,104)	173	(21,931)
Other operating expenses	(11,671)	(8,783)	(20,454)	(17,465)	1,196	(36,723)
Finance costs				(1,214)	178	(1,036)
Interest income				269	(178)	91
Realised gain on changes in fair value of derivative financial instrument				1,239		1,239
Other income net				962		962
Segment income/(loss) before income tax	27,092	36,471	63,563	(51,101)	(185)	12,277

Income tax expenses					(2,721)
Net income					9,556
Attributable to:					
Equity holders of the Company					9,556
Minority interest					
					9,556
Other information:					
Provision for doubtful debts	(1,494)	(858)	(2,352)	(3)	(2,355)
Capital expenditures for segment assets (a)	56,984	46,494	103,478	8,996	112,474

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5. SEGMENT INFORMATION (Continued)

5.1 Operating Segments

	December 31, 2008 (As restated)					
				Reconciling items		
	Mobile business	Fixed-line business	Subtotal	Unallocated amounts	Eliminations	Total
Total segment assets	130,041	184,127	314,168	35,071	(487)	348,752
Total segment liabilities	53,496	34,484	87,980	53,390	(345)	141,025

	December 31, 2009					
				Reconciling items		
	Mobile business	Fixed-line business	Subtotal	Unallocated amounts	Eliminations	Total
Total segment assets	170,577	213,172	383,749	34,470	(1,174)	417,045
Total segment liabilities	74,411	51,066	125,477	85,948	(847)	210,578

(a) Capital expenditures under unallocated amounts represent capital expenditures on common facilities, which benefit all operating segments.

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6. PROPERTY, PLANT AND EQUIPMENT

The movement of property, plant and equipment for the years ended December 31, 2008 and 2009 is as follows:

	2008 (As restated)						
	Buildings	Telecommunications equipment of Mobile business	Telecommunications equipment of Fixed-line business	Office furniture, fixtures, motor vehicles and others	Leasehold improvements	Construction-in-progress	Total
Cost or valuation:							
Beginning of year (As previously reported)	44,094	151,660	327,711	32,418	1,657	18,966	576,506
2009 Business Combination under common control (Note 1)	394			7,895	23	471	8,783
Beginning of year (As restated)	44,488	151,660	327,711	40,313	1,680	19,437	585,289
Additions	200	234	1,272	1,078	12	68,067	70,863
Transfer from CIP	2,566	17,931	21,797	3,954	362	(46,610)	
Disposals	(489)	(3,077)	(5,637)	(6,867)	(390)		(16,460)
Disposal of discontinued operations	(1,077)	(3,469)		(284)	(6)	(23)	(4,859)
End of year (As restated)	45,688	163,279	345,143	38,194	1,658	40,871	634,833
Representing:							
At cost	45,688	163,279				40,871	249,838
At valuation			345,143	38,194	1,658		384,995
	45,688	163,279	345,143	38,194	1,658	40,871	634,833
Accumulated depreciation and impairment:							
Beginning of year (As previously reported)	(11,809)	(85,446)	(184,801)	(17,423)	(893)	(24)	(300,396)

2009 Business Combination under common control (Note 1)	(100)			(7,001)	(5)		(7,106)
Beginning of year (As restated)	(11,909)	(85,446)	(184,801)	(24,424)	(898)	(24)	(307,502)
Charge for the year	(1,638)	(15,110)	(25,589)	(4,417)	(274)		(47,028)
Disposals	272	3,068	4,733	6,725	339	4	15,141
Disposal of discontinued operations	190	1,546		126			1,862
Impairment loss for the year			(11,825)			(12)	(11,837)
End of year (As restated)	(13,085)	(95,942)	(217,482)	(21,990)	(833)	(32)	(349,364)
Net book value:							
End of year (As restated)	32,603	67,337	127,661	16,204	825	40,839	285,469
Beginning of year (As restated)	32,579	66,214	142,910	15,889	782	19,413	277,787

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6. PROPERTY, PLANT AND EQUIPMENT (Continued)

				2009			
	Buildings	Telecommunications equipment of Mobile business	Telecommunications equipment of Fixed-line business	Office furniture, fixtures, motor vehicles and others	Leasehold improvements	Construction-in-progress	Total
Cost or valuation:							
Beginning of year (As previously reported)	44,950	163,279	345,143	36,086	1,627	40,783	631,868
2009 Business Combination under common control (Note 1)	738			2,108	31	88	2,965
Beginning of year (As restated)	45,688	163,279	345,143	38,194	1,658	40,871	634,833
Additions	644	430	1,518	503	208	109,171	112,474
Transfer from CIP	3,329	54,031	24,565	3,674	271	(85,870)	
Disposals	(297)	(10,817)	(2,203)	(957)	(251)		(14,525)
End of year	49,364	206,923	369,023	41,414	1,886	64,172	732,782
Representing:							
At cost	49,364	206,923				64,172	320,459
At valuation			369,023	41,414	1,886		412,323
	49,364	206,923	369,023	41,414	1,886	64,172	732,782
Accumulated depreciation and impairment:							
Beginning of year (As previously reported)	(13,019)	(95,942)	(217,482)	(20,668)	(813)	(32)	(347,956)
2009 Business Combination under common control (Note 1)	(66)			(1,322)	(20)		(1,408)

Beginning of year (As restated)	(13,085)	(95,942)	(217,482)	(21,990)	(833)	(32)	(349,364)
Charge for the year	(1,859)	(12,286)	(27,693)	(4,077)	(327)		(46,242)
Disposals	286	10,387	1,969	930	251		13,823
Impairment transfer out			151			7	158
End of year	(14,658)	(97,841)	(243,055)	(25,137)	(909)	(25)	(381,625)
Net book value:							
End of year	34,706	109,082	125,968	16,277	977	64,147	351,157
Beginning of year (As restated)	32,603	67,337	127,661	16,204	825	40,839	285,469

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6. PROPERTY, PLANT AND EQUIPMENT (Continued)

As of December 31, 2009, the net book value of all the revalued property, plant and equipment would have been approximately RMB149,960 million (2008: approximately RMB153,772 million) had they been stated at cost less accumulated depreciation and accumulated impairment losses.

As of December 31, 2009, the net book value of assets held under finance leases was approximately RMB128 million (2008: approximately 52 million).

For the year ended December 31, 2009, interest expense of approximately RMB806 million (2007: approximately RMB439 million; 2008: approximately RMB260 million) was capitalized to construction-in-progress. The capitalized borrowing rate represents the cost of capital for raising the related borrowings externally and varied from 4.27% to 4.80% for the year ended December 31, 2009 (2007: 3.60% to 5.80%; 2008: 3.51% to 6.80%).

For the year ended December 31, 2009, the Group recognized a gain on disposal of property, plant and equipment of approximately RMB79 million (2007: a loss of approximately RMB142 million; 2008: a loss of approximately RMB50 million).

After the completion of the merger with China Netcom (Note 1) in 2008, management reconsidered the Group s strategy regarding the PHS services business at the end of 2008 and expected to gradually phase out this operation over the subsequent 3 years. Accordingly, it was expected that the economic performance of PHS services business would deteriorate significantly. The test for impairment was conducted for the PHS services related equipment, after considering the expected significant decline in revenue and profitability in 2009 and onwards. The impaired PHS services related equipment was written down to their recoverable values, which was determined based on their estimated value in use. Estimated value in use was determined based on the present value of estimated future net cash flows expected to arise from the continuing use of the PHS services related equipment. In estimating the future net cash flows, the Group has made key assumptions and estimates on the appropriate discount rate of 15%, the period covered by the cash flow forecast of 3 years, the future loss of customers at an annual rate of decline ranging from 60% to 80%, and the decrease in average revenue per subscriber at an annual rate of decline of 15%.

These assumptions and estimates are made after considering the historical trends, the prevailing market trends, expected remaining life of the PHS services business and the physical conditions of the PHS services related equipment. Based on the above, the Group recognized an impairment loss on PHS services related equipment of approximately RMB11,837 million for the year ended December 31, 2008.

As of December 31, 2009, management updated the impairment analysis for the PHS services related equipment and concluded there was no need for additional recognition or reversal of the impairment provision on PHS services related equipment.

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7. LEASE PREPAYMENTS

The Group s long-term prepayment for land use rights represents prepaid operating lease payments for land use rights in Mainland China and their net book value is analyzed as follows:

	2008 (As restated)	2009
Held on:		
Leases of between 10 to 50 years	7,798	7,653
Leases of less than 10 years	65	76
	7,863	7,729

For the year ended December 31, 2009, the long-term prepayment for land use rights expensed in the statement of income amounted to approximately RMB224 million (2007: approximately 262 million; 2008: approximately RMB226 million).

8. GOODWILL

	2008	2009
Cost:		
Beginning of year	3,144	2,771
Disposal of CDMA business	(373)	
End of year	2,771	2,771

Goodwill arising from the acquisitions of Unicom New Century Telecommunications Co., Ltd. and Unicom New World Telecommunications Co., Ltd. by the Group in 2002 and 2003, respectively, represented the excess of the purchase consideration over the Group s shares of the fair values of the separately identifiable net assets acquired prior to the adoption of HKFRS and AG 5 in 2005 (refer to Note 2.3(a)).

Goodwill is allocated to the Group s cash-generating units (CGU). As of December 31, 2008 and 2009, all the carrying value of goodwill was attributable to the Mobile business. The recoverable amount of goodwill is determined based on value in use calculations. These calculations use pre-tax cash flow projections for 5 years based on financial budgets approved by management, including revenue annual growth rate of 6% and the applicable discount rate of 12%. Management determined expected operation results based on past performance and its expectations in relation to market developments. The expected growth rates used are consistent with the forecasts of the business segments. The discount rate used is pre-tax and reflects specific risks relating to the CGU. Based on management s assessment results, there was no impairment of goodwill as of December 31, 2008 and 2009 and no reasonable change to the assumptions would lead to an impairment.

Upon disposal of the CDMA business effective on October 1, 2008, goodwill of approximately RMB373 million attributable to the CDMA business arising from the above acquisitions was derecognized.

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9. TAXATION

Hong Kong income tax has been provided at the rate of 16.5% (2007: 17.5%; 2008: 16.5%) on the estimated assessable income for the year. Taxation on income from outside Hong Kong has been calculated on the estimated assessable income for the year at the rates of taxation prevailing in the countries in which the Group operates, the Company s subsidiaries mainly operated in the PRC and the applicable standard enterprise income tax rate is 25% (2007: 33%; 2008: 25%).

	2007 (As restated)	2008 (As restated)	2009
Provision for enterprise income tax on the estimated taxable income for the year			
Hong Kong	18	24	45
Outside Hong Kong	7,229	4,661	2,282
	7,247	4,685	2,327
Deferred taxation	(72)	(2,857)	394
Income tax expense	7,175	1,828	2,721

Reconciliation between applicable statutory tax rate and the effective tax rate:

	Note	2007 (As restated)	2008 (As restated)	2009
Applicable PRC statutory tax rate		33.0%	25.0%	25.0%
Non-deductible expenses		0.6%	2.2%	1.7%
Tax effect of 2009 Business Combination	(a)	(0.7%)	(3.5%)	
Non-taxable income				
Upfront connection and installation fees arising from Fixed-line business		(2.7%)	(3.3%)	(1.4%)
Tax refund on reinvestment in subsidiaries		(4.7%)		
Impact of PRC preferential tax rates and tax holiday		(0.8%)	(0.9%)	(1.1%)
Utilization of previously unrecognized tax losses				(0.6%)
Effect of change of tax rate under the new PRC enterprise income tax law		0.3%		
Realized loss on changes in fair value of derivative component of convertible bonds		0.7%		
Others		(0.2%)	(0.6%)	(1.4%)
Effective tax rate		25.5%	18.9%	22.2%

(a):

The income tax of Fixed-line business in Southern China, local access telephone business in Tianjin Municipality and New Guoxin was reported on a consolidated basis with Netcom Group and Unicom Group prior to the 2009 Business Combination and no separate tax returns were prepared. No income tax expenses were therefore recorded for the Fixed-line Business in Southern China, local access telephone business in Tianjin Municipality and New Guoxin in 2008 or prior years in accounting for the Fixed-line business in Southern China, local access telephone business in Tianjin Municipality and New Guoxin using merger accounting/predecessor values method.

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9. TAXATION (Continued)

The analysis of deferred tax assets and deferred tax liabilities are as follow:

	2008 (As restated)	2009
Deferred tax assets:		
Deferred tax asset to be recovered after 12 months	4,903	3,254
Deferred tax asset to be recovered within 12 months	1,601	2,913
	6,504	6,167
Deferred tax liabilities:		
Deferred tax liabilities to be settled after 12 months	(931)	(699)
Deferred tax liabilities to be settled within 12 months	(239)	(266)
	(1,170)	(965)
Net deferred tax assets after offsetting	5,334	5,202
Deferred tax assets:		
Deferred tax asset to be recovered after 12 months	16	6
Deferred tax asset to be recovered within 12 months	10	59
	26	65
Deferred tax liabilities:		