CHINA UNICOM (HONG KONG) Ltd
Form 20-F
May 26, 2011

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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, 2010

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, 2010, 23,562,176,959 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

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: (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

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 þ

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, in particular, 3G 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 they 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, including without limitation changes in the regulatory policies of 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, in particular, 3G 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 discontinuation of the personal handyphone system, or PHS, business in response to the MIIT s request;

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- 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 recent 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 recovery from the recent global economic downturn 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 Chin (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, provinces and region 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 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 th currency of the United States of America, references to HK dollars or HK$ are to the currency of the Hong Kong Special Administrative Region of the PRC and references to Euro are to the currency of the eurozone (17 of the 27 member states of the European Union).

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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, 2009 and 2010 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.

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 the years ended December 31, 2007, 2008, 2009 and 2010. Except for amounts presented in U.S. dollars, the selected historical consolidated income statement data for the years ended December 31, 2007, 2008, 2009 and 2010 and the selected historical consolidated balance sheet data as of December 31, 2008, 2009 and 2010 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, 2009 and 2010 and consolidated balance sheets as of December 31, 2008, 2009 and 2010 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.

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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**	**2010**	**2010**
	RMB	**RMB**	**RMB**	**RMB**	**US$(1)**
	(in millions, except for per share data)				
Consolidated Income Statement Data:					
CONTINUING OPERATIONS					
Revenue(2)					
Mobile business					
Telecommunications service revenue	62,236	64,240	69,769	82,362	12,479
Information communication technology services and other revenue	187	359	252	15	2
Sales of mobile telecommunications products	14	532	1,970	7,173	1,087
Total mobile telecommunications revenue	62,437	65,131	71,991	89,550	13,568
Fixed-line business					
Telecommunications service revenue (2)	91,093	88,254	79,549	78,896	11,954
Information communication technology services and other revenue	4,782	4,339	1,611	1,046	158
Sales of fixed-line telecommunications products	980	1,362	193	114	17
Total fixed-line telecommunications revenue	96,855	93,955	81,353	80,056	12,129
Unallocated amounts					
Telecommunications service revenue (2)	420	337	275	737	112

Information communication technology services and other revenue	228	364	326	955	145
Sales of other telecommunications products		5			
	648	706	601	1,692	257
Total revenue	**159,940**	**159,792**	**153,945**	**171,298**	**25,954**
Total costs, expenses and others	**(136,497)**	**(155,733)**	**(141,668)**	**166,525**	**25,231**
Income from continuing operations before income tax	**23,443**	**4,059**	**12,277**	**4,773**	**723**
Income tax expenses	(7,175)	(1,828)	(2,721)	(922)	(140)
Income from continuing operations	**16,268**	**2,231**	**9,556**	**3,851**	**583**
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	**16,924**	**29,804**	**9,556**	**3,851**	**583**
Earnings per share for income attributable to owners of the parent during the year					
-Basic earnings per share(4)	0.73	1.25	0.40	0.16	0.03
-Diluted earnings per share(4)	0.73	1.24	0.40	0.16	0.03
-Basic earnings per ADS(5)	7.33	12.55	4.02	1.63	0.25
-Diluted earnings per ADS(5)	7.26	12.45	4.00	1.62	0.25

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	As of or for the year ended December 31				
	2007 RMB	**2008 RMB**	**2009 RMB**	**2010 RMB**	**2010 US$(1)**
Earnings per share for income from continuing operations attributable to owners of the parent during the year					
-Basic earnings per share(4)	0.70	0.09	0.40	0.16	0.03
-Diluted earnings per share(4)	0.70	0.09	0.40	0.16	0.03
-Basic earnings per ADS(5)	7.04	0.94	4.02	1.63	0.25
-Diluted earnings per ADS(5)	6.98	0.93	4.00	1.62	0.25
Earnings per share for income from discontinued operations attributable to owners of the parent 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	23,562	23,562
-Number of shares outstanding for diluted earnings per share(4)	23,321	23,941	23,895	23,704	23,704
-Number of ADS outstanding for basic earnings per ADS(5)	2,308	2,375	2,377	2,356	2,356
-Number of ADS outstanding for diluted earnings per ADS(5)	2,332	2,394	2,389	2,370	2,370
Consolidated Balance Sheet Data:					
Assets					
Cash and cash equivalent and short-term bank deposits	13,555	10,574	8,816	22,768	3,449
Property, plant and equipment	306,420	315,546	351,157	366,060	55,464
Inventories and consumables	2,816	1,147	2,412	3,728	565
Prepayments and other current assets	5,181	2,876	4,252	5,115	775
Available-for-sale financial assets	287	95	7,977	6,214	942
Proceeds receivable for the disposal of the CDMA business		13,140	5,121		
Total assets	**368,435**	**380,318**	**417,045**	**441,453**	**66,887**
Liabilities					
	61,331	73,854	104,072	97,659	14,795

Amounts payable and accrued liabilities					
Long-term loans due to ultimate holding company	27,213	35,652			
Payables in relation to the disposal of the CDMA business		4,232	7		
Short-term bank loans	11,850	10,780	63,909	36,727	5,565
Commercial papers	20,000	10,000		23,000	3,485
Current portion of long-term bank loans	7,413	1,216	62	58	9
Current portion of other obligations	3,381	3,012	2,534	2,637	400
Long-term bank loans	16,086	997	759	1,462	222
Promissory notes				15,000	2,273
Convertible bonds				11,558	1,751
Corporate bonds	2,000	7,000	7,000	7,000	1,061
Tax payable	5,091	11,370	912	1,484	225
Total liabilities	**195,146**	**183,085**	**210,578**	**235,612**	**35,699**
Shareholders equity	**173,289**	**197,233**	**206,467**	**205,841**	**31,188**
Share capital	1,437	2,329	2,310	2,310	350
Other Financial Data:					
CONTINUING OPERATIONS					
Net cash inflow from operating activities of continuing operations	68,854	57,241	57,733	66,344	10,052
Net cash outflow from investing activities of continuing operations	(54,745)	(61,026)	(85,308)	(76,614)	(11,608)
Net cash (outflow)/inflow from financing activities of continuing operations	(22,830)	(28,786)	30,197	19,824	3,003
Net cash (outflow)/inflow from continuing operations	**(8,721)**	**(32,571)**	**2,622**	**9,554**	**1,447**
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)	5,121	776
Net cash outflow from financing activities of discontinued operations					
Net cash inflow/(outflow) from discontinued operations	**812**	**30,145**	**(5,039)**	**5,121**	**776**

Net (decrease)/increase in cash and cash equivalents	**(7,909)**	**(2,426)**	**(2,417)**	**14,675**	**2,223**
Dividend declared per share	**0.20**	**0.20**	**0.16**	**0.08**	**0.01**

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(1) The translation of RMB into US dollars has been made at the rate of RMB6.6000 to US$1.00, representing the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board on December 30, 2010. The translations are solely for the convenience of the reader.

(2) Includes 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 38 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 at specific rates. Prior to January 1, 2009, the exchange rate refers to the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York. For January 1, 2009 and all later dates and periods, the exchange rate refers to the exchange rate as set forth in the H.10 statistical release of the Federal Reserve Board. Unless otherwise indicted, conversions of Renminbi or Hong Kong dollars into U.S. dollars in this annual report are based on the exchange rate on December 30, 2010 (RMB6.6000 to US$1.00 and HK$7.7810 to US$1.00). 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 daily exchange rates reported by the Federal Reserve Board were RMB6.4917 = US$1.00 and HK$7.7733 = US$1.00, respectively, on May 20, 2011. The following table sets forth the high and low exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each month during the previous six months:

Exchange Rate

	RMB per US$1.00		HK$ per US$1.00	
	High	**Low**	**High**	**Low**
November 2010	6.6892	6.6330	7.7656	7.7501
December 2010	6.6745	6.6000	7.7833	7.7612
January 2011	6.6364	6.5809	7.7978	7.7683
February 2011	6.5965	6.5520	7.7957	7.7823
March 2011	6.5743	6.5483	7.8012	7.7750
April 2011	6.5477	6.4900	7.7784	7.7669
May 2011 (up to May 20, 2011)	6.5073	6.4917	7.7771	7.7652

The following table sets forth the average exchange rates between Renminbi and U.S. dollars and between Hong Kong dollars and U.S. dollars for each of 2006, 2007, 2008, 2009 and 2010, calculated by averaging, in the case of 2006 to 2008, the noon buying rates, or in the case of 2009 and 2010, the daily exchange rate, on the last day of each month during the relevant years.

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Average Exchange Rate

	RMB per US$1.00	HK$ per US$1.00
2006	7.9579	7.7685
2007	7.5806	7.8008
2008	6.9193	7.7814
2009	6.8295	7.7513
2010	6.7603	7.7692

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

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, 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.

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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 up to 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.

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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 diversion of our management s attention from the operation of our businesses and may 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.

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, including effectively responding to a shortage of available Internet Protocol version 4 addresses and timely developing 3GPP Long Term Evolution, or LTE;
- obtain adequate financing;
- obtain relevant government licenses, permits and approvals;
- obtain adequate network equipment and software;
- retain experienced management and technical personnel;

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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:

we will be able to gain access to sufficient sites for 3G network expansion;

there will be sufficient demand for 3G services;

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 May 2008, an earthquake registering 8.0 on the Richter scale struck Sichuan Province and its neighboring areas in China. In 2010, another major earthquake registering 7.1 on the Richter scale struck Qinghai Province. 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.

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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 RMB73.80 billion for capital expenditure in 2011. 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, completed the issue of two tranches of commercial paper for the year of 2010 in an amount of RMB15 billion and RMB8 billion at an interest rate of 2.64% and 2.81% per annum, respectively, as well as the issue of two tranches of promissory note for the year of 2010 in an amount of RMB3 billion and RMB 12 billion at an interest rate of 3.73% and 3.31% per annum, respectively. In addition, on October 18, 2010, Billion Express Investments Limited, a wholly-owned subsidiary of our company, completed the issue of US$1,838,800,000 0.75 per cent guaranteed convertible bonds due 2015, or the 2015 Convertible Bonds, which are exchangeable into ordinary shares of our company. We cannot assure you that we will be able to obtain future financing on a timely basis and/or on acceptable terms. Even if we obtain such financing, our financing cost may increase significantly as a result of additional financing or higher interest rate. 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.

In 2010, the ARPU for our mobile business increased by 5.0% from 2009, primarily because (i) the ARPU for our 3G business is significantly higher than that of our 2G business and (ii) the number of our 3G subscribers has increased as a percentage of the total number of our mobile subscribers. However, we have been experiencing declining ARPU for each of our GSM mobile services, 3G mobile services and fixed-lined business, mainly due to (i) the pricing competition with other telecommunications operators in China; (ii) downward adjustments on some of the telecommunications tariffs by the PRC Government (which may continue in the future); and (iii) many new subscribers are users with lower usage of telecommunications services. Our current GSM mobile services, 3G 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.

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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 April 30, 2011 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 Network Communications Limited (formerly known as 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.

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As of December 31, 2010, 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, 2010 was effective. The effectiveness of our internal control over financial reporting as of December 31, 2010, has been audited by PricewaterhouseCoopers, an independent registered public accounting firm, as stated in their report appearing on page F2. 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.

If we fail to effectively rectify those improper measures and practices identified by the PRC National Audit Office in our operations, our reputation, business, financial condition and results of operations may be materially and adversely affected, which could adversely affect 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 controlling shareholder. The NAO issued an audit report in May 2011 that set forth the results of its routine audit on the 2009 financial information of Unicom Group and us. The NAO identified in the audit report improper measures and practices in our certain related party transactions, procurement procedures, operational management and accounting procedures. We have adopted a number of rectification measures to address these improper measures and practices. Based on our current assessment, none of these improper measures and practices has a material impact on our historical operating results, financial statements, audit opinion or internal control assessments. However, there is no assurance all of these measures can continuously and effectively rectify all the improper measures and practices. If we fail to successfully implement any of these measures or fail to effectively rectify these improper measures and practices, our reputation, business, financial condition and results of operations may be materially and adversely affected, which could adversely affect the prices of our shares and ADSs. Furthermore, the publish of these improper measures and practices in the audit report by the NAO may have a material adverse effect on our reputation.

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Our outstanding convertible bonds may dilute the ownership interest of existing shareholders and may adversely affect the market price of our ordinary shares.

On October 18, 2010, Billion Express Investments Limited, a wholly-owned subsidiary of our company, completed the issue of the 2015 Convertible Bonds, which are exchangeable into ordinary shares of our company. Pursuant to the subscription agreement with respect to the 2015 Convertible Bonds, the holders of the 2015 Convertible Bonds may, beginning on November 28, 2010, elect to convert its bonds into our ordinary shares at an initial conversion price of HK$15.85 per share, subject to certain adjustments. As of April 30, 2011, none of the 2015 Convertible Bonds has been converted into our ordinary shares. Assuming a full conversion of the 2015 Convertible Bonds at the initial conversion price of HK$15.85 per share, the bonds would be convertible into 899,979,487 ordinary shares, representing approximately 3.68% of our enlarged issued and outstanding share capital as of April 30, 2011.

The conversion of the 2015 Convertible Bonds, if converted in full or in part, would dilute the ownership interest of our existing shareholders and our earnings per share, and could adversely affect the market price of our shares. Even if the 2015 Convertible Bonds are not converted, their existence may encourage the short selling of our ordinary shares by the holders of the 2015 Convertible Bonds as well as other market participants, depressing the price of our ordinary shares.

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.

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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 revenue 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. Revenue from some of our customers have decreased as a result of discounts on monthly fees that we offered through bundled service packages. Our revenue 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. On November 22, 2010, Hainan Province and Tianjin City initiated trials on the switch of telecommunications operator networks with existing numbers. The potential new regulatory policies and regulations may materially adversely affect our financial condition, results of operations and growth prospects.

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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 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 revenue 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. Furthermore, if China s economic growth slows down, there may be reduced business activities and reduced demand for our services, which could materially and adversely affect our business, as well as 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. The Renminbi currently cannot be freely converted without regulatory approval for transactions under the capital account, which includes outbound foreign investment and 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.

Substantially all of our revenue 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.

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). In 2010, another major earthquake registering 7.1 on the Richter scale struck Qinghai Province. 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.

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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

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.

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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 revenue 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.

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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. 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 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.

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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 China Unicom International Limited, or 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. In September 2009, the name of China Unicom International Limited was changed to China Unicom (Hong Kong) Operations Limited. 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.

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.

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

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 New Guoxin Telecom Corporation of China Unicom, 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, or the initial lease, 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 initial lease became effective in January 2009 upon the completion of our acquisitions of the fixed-line business in southern China and was for an initial term of two years effective from January 2009. On October 29, 2010, CUCL entered into a network leasing agreement or, the 2011-2012 Network Lease Agreement, with Unicom New Horizon, which became effective on January 1, 2011. The 2011-2012 Network Lease Agreement is for an initial term of two years effective from January 1, 2011 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. The annual lease fee payable by CUCL under the initial lease for the years ending December 31, 2009 and 2010 was RMB2.0 billion and RMB2.2 billion, respectively, and the annual lease fee payable by CUCL under the 2011-2012 Network Lease Agreement for the years ending December 31, 2011 and 2012 is RMB2.4 billion and RMB2.6 billion, respectively. In connection with the 2011-2012 Network Lease Agreement, 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 2011-2012 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.

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Mutual Investment with Telefónica, S.A.

On September 6, 2009, we entered into a share subscription agreement with Telefónica, S.A., or 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 Euro17.24 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.

On January 23, 2011, we entered into the Agreement to Enhance the Strategic Alliance with Telefónica. Pursuant to this agreement, we acquired from Telefónica 21,827,499 ordinary shares of Euro1.00 each in the capital of Telefónica for an aggregate purchase price of Euro374,559,882.84 on January 25, 2011, and Telefónica agreed to purchase ordinary shares of HK$0.10 each in the capital of our company for the aggregate consideration of US$500,000,000 through acquisitions from third parties within nine months after the date of the signing of this agreement. Pursuant to the agreement, Chang Xiaobing, our Chairman and Chief Executive Officer, as our designated representative, was appointed in May 2011 as a director on the board of directors of Telefónica.

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 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.

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Set forth below is our shareholding structure and significant subsidiaries as of April 30, 2011.

Two-Step Voting Arrangements

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.

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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.

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B. Business Overview

General

We are 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.

In 2010, driven by the growth in our 3G business, which was launched in May 2009 and put into commercial operations in October 2009, we generated 50.9% of the total telecommunications service revenue from the mobile business, which for the first time exceeded that from the fixed-line business. Our fixed-line business remained stable.

Mobile Business

Our mobile business consists of GSM and 3G mobile business. Our mobile business revenue, subscribers and usage maintained growth in 2010, with those for 3G mobile business growing at a more rapid pace. As of December 31, 2010, we had a total of 167.43 million mobile subscribers, representing a 13.4% increase from 147.59 million as of December 31, 2009. Revenue from our mobile business was RMB89.55 billion in 2010, of which, telecommunications service revenue of our mobile business increased by 18.0% from RMB69.77 billion in 2009 to RMB82.36 billion in 2010, accounted for 46.8% and 50.9% of our total telecommunications service revenue from continuing operations in 2009 and 2010, respectively (excluding fixed-line upfront connection fees of RMB0.49 billion and RMB0.19 billion in 2009 and 2010, respectively).

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,		
	2008	**2009**(1)	**2010**(1)
Number of subscribers (in thousands)	133,365	147,587	167,426
Estimated market share in our service areas(2)	20.8%	19.7%	19.5%
Average minutes of usage per subscriber per month (MOU)(3)	246.4	253.1	280.5
Average revenue per subscriber per month (ARPU) (in RMB)(4)	42.3	41.6	43.7

(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 business 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 revenue of mobile business during the relevant period by the average number of our mobile business subscribers during the period, and dividing the result by the number of months in the period.

Our total number of mobile subscribers increased by 13.4% from 147.59 million as of December 31, 2009 to 167.43 million as of December 31, 2010, which was mainly due to the increase in our GSM and 3G subscribers. The MOU of our mobile business increased from 253.1 minutes in 2009 to 280.5 minutes in 2010, which was mainly because (i) the MOU of our 3G business is significantly higher than that of our GSM business and (ii) the number of our 3G subscribers has increased as a percentage of the total number of our mobile subscribers. The ARPU of our mobile business increased by 5.0% from RMB41.6 in 2009 to RMB43.7 in 2010, which was mainly due to the change of revenue mix between our GSM business and 3G business. 3G business has a significantly higher ARPU than GSM business. Therefore, despite the ARPU of each of our GSM and 3G businesses decreased in 2010 compared to 2009, as the revenue from 3G business increased significantly as a percentage of telecommunications service revenue from the mobile business from 1.1% in 2009 to 14.1% in 2010, the overall ARPU of our mobile business increased.

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. Our 3G network coverage has reached cities at county level and above throughout China as well as villages and towns in eastern developed areas of China.

In 2010, we continued to implement our unified strategies for 3G business with respect to brand, service, tariff, packaging, handset policies and customer care standards throughout China. In order to meet the changing market demand and customer needs, we initiated active sales and marketing efforts, including introducing more types of 3G tariff plans, enhancing 3G handsets subsidy models and launching a more variety of 3G handsets models. In addition, we further developed mobile Internet and mobile applications businesses for 3G business. Furthermore, we launched WO store, an online applications store that enriches customers 3G experience. We also promoted mobile music, mobile TV, mobile reading and other resource-based businesses, as well as instant communication and other interactive social communication businesses, so as to cultivate customers data consumption habits.

The total number of our 3G subscribers increased from 2.74 million as of December 31, 2009 to 14.06 million as of December 31, 2010. As of December 31, 2010, we had 1.35 million wireless data card subscribers, 2.41 million mobile TV subscribers and over 7 million mobile reading subscribers. In 2010, the ARPU of 3G subscribers decreased from RMB141.7 in 2009 to RMB124.0 in 2010. In 2010, the total 3G voice usage was 55.47 billion minutes and the average data usage per subscriber per month was 178M.

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 5.9% from 144.85 million as of December 31, 2009 to 153.37 million as of December 31, 2010. 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 11.3% from 423.05 billion minutes in 2009 to 471.00 billion minutes in 2010.

MOU and ARPU. With respect to our GSM mobile business, MOU increased by 4.3% from 252.0 minutes in 2009 to 262.9 minutes in 2010, and ARPU decreased by 4.1% from RMB41.2 in 2009 to RMB39.5 in 2010. 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), mobile Internet 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 2010. In particular, a total of 78.31 billion SMSs were transmitted by our GSM mobile subscribers in 2010, representing an increase of 2.4% compared to 2009. As of December 31, 2010, we had a total number of 67.26 million subscribers to our Cool Ringtone service, representing a net increase of 18.04 million, and the penetration rate increased from 34.0% at the end of 2009 to 43.9% at the end of 2010. In addition, as of December 31, 2010, we had a total number of 55.81 million mobile Internet subscribers, representing a net increase of 11.02 million from the end of 2009, up by 24.6% from 2009, and the penetration rate increased from 30.9% at the end of 2009 to 36.4% at the end of 2010.

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 and data communications services, (ii) fixed-line voice services, include local and long distance fixed-line voice services and value-added services and (iii) other services.

In 2010, with the continuation of the mobile services substitution of fixed-line voice services, our fixed-line voice 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 2010 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 RMB0.19 billion and RMB0.49 billion in 2010 and 2009, respectively, our revenue from fixed-line business was RMB79.86 billion in 2010, of which telecommunications service revenue from our fixed-line business decreased by 0.4% from RMB79.06 billion in 2009 to RMB78.70 billion in 2010, accounted for 53.0% and 48.6% of our total telecommunications service revenue from continuing operations in 2009 and 2010, 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 2010, we further upgraded our broadband network and improved access speed. As of December 31, 2010, our fixed-line broadband subscribers increased by 22.5% to 47.22 million, of which, subscribers with 2M-and-above bandwidth accounted for 86.8% of all fixed-line broadband subscribers, representing an increase of 3.6 percentage points from the end of 2009, and subscribers with 4M-and-above bandwidth accounted for 29.6% of all fixed-line broadband subscribers. 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 18.61 million, accounting for 39.4% of all fixed-line broadband subscribers. Our broadband ARPU remained relatively stable at RMB57.1 in 2010 compared to RMB57.2 in 2009.

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

	As of December 31,		
	2008	2009	2010
Number of fixed-line broadband subscribers (in thousands)	30,081	38,550	47,224

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. As of the end of 2010, 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 2010, we continued to offer full-scale data communications services to international operators and domestic and international corporate customers. We have also improved our capabilities to offer cross-border data communications and integrated information services.

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. In 2010, leveraging on our company s full-service advantage, we enhanced market development in areas of customer premises network, or CPN, and rural markets, as well as strengthened the marketing of integrated services. The number of our fixed-line subscribers (including PHS subscribers) decreased by 6.0% to 96.64 million at the end of 2010. The following table sets forth the information of our fixed-line subscribers as of the dates indicated:

	As of December 31,		
	2008	2009 (in thousands)	2010
Number of fixed-line subscribers[(1)]			
Residential Residential	63,824	61,733	59,681
Business	13,586	14,238	15,494
PHS	23,979	18,742	13,423
Public telephones	8,181	8,109	8,037
Total	109,570	102,822	96,635

(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 attractive 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.

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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,		
	2008	**2009**	**2010**
Usage of local calls (pulse in millions)(1)			
Total usage	206,632	188,116	156,724
Internet dial-up usage	2,960	2,577	1,162
Total usage excluding Internet dial-up usage	203,672	185,539	155,562

(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 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,		
	2008	**2009**	**2010**
Total minutes of domestic long distance calls (minutes in millions)(1)			
Traditional	25,771	21,261	17,349
VoIP	14,643	11,698	8,879
Total	40,414	32,959	26,228

(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,		
	2008	**2009**	**2010**
International long distance outbound call minutes (minutes in millions)(1)(2)			
Traditional	236	221	269
VoIP	456	403	290
Total	692	624	559

(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 revenue 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, 2010, the number of our Personalized Ring subscribers reached 23.79 million, representing a decrease of approximately 10.7% from the end of 2009. The penetration rate of caller identification services amounted to 70.1%, decreasing by 1.3 percentage point over that of 2009.

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, 2011, we had roaming arrangements for (i) GSM international voice and SMS services with 242 operators in 521 countries and regions, (ii) GPRS international inbound data services with 179 operators in 400 countries and regions and for international GPRS outbound data services with 164 operators in 357 countries and regions, and (iii) 3G services with 104 WCDMA operators in 245 countries and regions.

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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 December 31, 2010, we had approximately 329,000 GSM base stations, representing an increase by 15.5% from December 31, 2009. The call-completion rate of our GSM service increased to 97.6% at the end of 2010 from 96.2% at the beginning of 2010 and the call-drop rate decreased to 0.34% at the end of 2010 from 0.39% at the beginning of 2010. 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 2010, our 3G network coverage reached cities at county level and above throughout China as well as villages and towns in eastern developed area of China.

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.

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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 2010, the number of fixed-line broadband access ports was 65.83 million, up by 29.3% from the end of 2009, of which the number of access ports with an access speed of 20M and above accounted for 38%. Our international Internet outbound bandwidth reached 339G, our submarine cable capacity reached 1,539G, and our international cross-continental cable capacity reached 1,893G.

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 proprietary sales outlets and direct sales forces targeting retail and corporate customers, (ii) social channels, including cooperative sales outlets, exclusive sales outlets and agency sales outlets, and (iii) electronic distribution channels, including self-owned and third-party channels online e-stores. In recent years, we have continued developing our self-owned sales channels and strategically expanding our social channels. In particular, for our 3G services, in addition to the full use of our self-owned channels, we have also focused on using high-quality social channels, such as large brand name electronics retail chains and electronics outlets 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 provide customer services through our nationwide sales outlets, hotline number 10010 , online sales outlets, SMSs, Wireless Application Protocol, or WAP, and other channels. Our customer services typically include inquiries, service initiation and termination, sales, and response to customer complaints and suggestions. Since 2009, we have provided 3G-dedicated customer service and have established over 300 WO brand stores to enhance our customers experience. In 2010, we continued to improve our customer service quality and created 3G Customer Service Centers + VIP Customer Managers , a 3G-dedicated customer service model for our 3G subscribers.

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 2010, we further improved our core customer relationship management system and billing, or BSS, system of our provincial branches and started the establishment of integrated account settlement system and integrated partner relation management system. Meanwhile, 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 also participate in the national research project on LTE. 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 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.

On January 23, 2011, we entered into the Agreement to Enhance the Strategic Alliance with Telefónica. Pursuant to this agreement, we acquired from Telefónica 21,827,499 ordinary shares of Euro1.00 each in the capital of Telefónica for an aggregate purchase price of Euro374,559,882.84 on January 25, 2011, and Telefónica agreed to purchase ordinary shares of HK$0.10 each in the capital of our company for the aggregate consideration of US$500,000,000 through acquisitions from third parties within nine months after the date of the signing of this agreement. Pursuant to the agreement, Chang Xiaobing, our Chairman and Chief Executive Officer, as our designated representative, was appointed in May 2011 as a director on the board of directors of Telefónica.

Trademarks

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.

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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 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.

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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 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; (ii) for the nationwide WCDMA network frequency, a standard fee at an annual rate of RMB3.75 million per MHz in 2011, RMB7.5 million per MHz in 2012, RMB11.25 million MHz in 2013 and RMB15 million per MHz in 2014 and onwards will be charged for the 2100 MHz band; (iii) for the Femtocell experimental frequency, an annual rate of 20% of RMB15 million per MHz will be charged for the 2100 MHz band from 2011; and (iv) for any local telecommunications network frequency, an annual rate of RMB1.7 million per MHz is charged for each province for the 900MHz band, an annual rate of RMB1.5 million per MHz is charged for each province for the 1800 MHz band and an annual rate of RMB1.5 million will be charged for each province for the 2100 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 local usage fee for mobile services are regulated as State-fixed tariffs. 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. Pursuant to the Notice on Adjustment to Tariff Management for Local Fixed-Line Telephone Services issued by the MIIT in 2009, the monthly fee and usage fee for local fixed-line telephone services (including PHS) as well as the long-term leasing fees for circuits leasing are subject to certain tariff ceiling. Domestic long distance services, international long distance services and Hong Kong, Macau and Taiwan long distance services are also currently subject to tariff ceiling.

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.

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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 revenue from 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 RMB0.30 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

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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)]:

	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. From January 1, 2011, for calls originated from 157 or 188 prefix phone numbers (TD users), mobile operator (China Mobile) continues to pay 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.
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. For calls originated from 157 or 188 prefix phone numbers (TD users) during the period from January 1, 2011, 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.

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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 A (through the long distance network of operator A)	Local fixed-line or mobile operator B	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 (through the long distance network 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 (through the long distance network 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 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; and (3) If operator A is local usage fees and 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.

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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 SMS Originated	Network at Which SMS 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 RMB0.03 (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:

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, Open Mobile Alliance, World Wide Web Consortium, 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 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.

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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 April 30, 2011, 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 significant 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%
Billion Express Investments Limited	British Virgin Islands	100%

D. Properties

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.

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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 AG 5. 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.

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.

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

We are 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.

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The table below sets forth revenue from our major businesses and their respective percentage of our total revenue from continuing operations in 2008, 2009 and 2010 (excluding (i) fixed-line upfront connection fees of RMB886 million in 2008, RMB490 million in 2009 and RMB192 million in 2010 and (ii) interconnection revenue of RMB992 million between certain fixed-line business and the discontinued operations of CDMA business in 2008).

	For the Year Ended December 31,					
	2008		2009		2010	
	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]	157,914	100.0	153,455	100.0	171,106	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)	150,953	95.6	149,103	97.2	161,803	94.6
Include: Mobile business	64,240	40.7	69,769	45.5	82,362	48.1
Fixed-line business	86,376	54.7	79,059	51.5	78,704	46.0
Out of which:						
Broadband service	20,962	13.3	23,898	15.6	29,822	17.4
Information communication technology services and other revenue	5,062	3.2	2,189	1.4	2,016	1.2
Total sales of telecommunications products	1,899	1.2	2,163	1.4	7,287	4.2

(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 revenue 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;
- 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;

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revenue for offerings which include the bundled sale of mobile handsets and provision of services. We recognize revenue allocated to the sale of handset when the title of the handset is passed to the customer and recognize revenue allocated to the service element based upon the actual usage of mobile services. The cost of the mobile handset sold is expensed immediately to the statement of income. Prior to the fourth quarter of 2010, we determined the amount of revenue allocated to the handset using the residual value method. Under the residual value method, we determined the revenue allocated to the sale of the mobile handset by deducting the fair value of the service element from the total contract consideration. In the fourth quarter of 2010, we determined to adopt the accounting policy of relative fair value method to account for the bundled sale of mobile handsets and provision of services retrospectively from January 1, 2010. Under the relative fair value method, the total revenue from such bundled sale is allocated to service revenue and sales of handsets based on their relative fair values. The change in accounting policy resulted in (i) an increase of our revenue, income before income tax, net income and earnings per share of RMB3,208 million, RMB3,208 million, RMB2,406 million and RMB0.11, respectively for the year ended December 31, 2010; and (ii) a decrease in advance from customers of RMB3,317 million as of December 31, 2010. The above change in accounting policy did not have a significant impact on the financial statements for the years ended December 31, 2009 and 2008, and accordingly, we did not restate the comparative figures;

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, or (ii) if it is probable that costs incurred will not be recoverable, costs should be recognized as current expenses immediately and service revenue should not be recognized;

revenue from sales of telecommunications products (which mainly represent handsets and accessories) that are not bundled with mobile services are recognized when title of such products has been passed to the buyers; 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.

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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 2008, 2009 and 2010 (excluding (i) fixed-line upfront connection fees of RMB886 million in 2008, RMB490 million in 2009 and RMB192 million in 2010 and (ii) interconnection revenue of RMB992 million between certain fixed-line business and the discontinued operations of CDMA business 2008).

	For the Year Ended December 31,					
	2008		2009		2010	
	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)]	157,914	100.0	153,455	100.0	171,106	100.0
Costs, expenses and others	155,733	98.6	141,668	92.3	166,525	97.3
Interconnection charges	13,038	8.3	12,955	8.4	13,727	8.0
Depreciation and amortization	51,847	32.8	47,587	31.0	54,433	31.8
Networks, operations and support expenses	18,736	11.9	23,728	15.5	26,383	15.4
Employee benefit expenses	20,758	13.1	21,931	14.3	23,327	13.6
Selling and marketing	19,614	12.4	21,020	13.7	23,733	13.9
Cost in relation to information communication technology services	3,010	1.9	839	0.5	895	0.5
General, administrative and other expenses	13,217	8.4	12,175	7.9	12,953	7.6
Cost of telecommunications products sold	2,156	1.4	2,689	1.8	10,688	6.3
Finance costs, net of interest income	3,004	1.9	945	0.6	1,607	0.9
Impairment loss on property, plant and equipment	12,494	7.9				
Realized gains on changes in fair value of derivative financial instrument			(1,239)	(0.8)		
Other income-net	(2,141)	(1.4)	(962)	(0.6)	(1,221)	(0.7)

(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 options;

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;
- general, administrative and other expenses, primarily including provision for doubtful debts, utilities, general office expenses and travel expenses;
- cost of telecommunications products sold; and
- finance costs, net of interest income, primarily including interest expenses, net of interest income.

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;
- Revenue 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 bundled sale of mobile handsets and provision of services, prior to the fourth quarter of 2010, we determined the amount of revenue allocated to the handset using the residual value method. Under the residual value method, we determined the revenue allocated to the sale of the mobile handset by deducting the fair value of the service element from the total contract consideration. We recognize revenue related to the sale of handset when the title of the handset is passed to the customer and recognize revenue allocated to the service element based upon the actual usage of mobile services. The cost of the mobile handset sold is expensed immediately to the statement of income. In 2010, we have offered promotional packages for the bundled sale of mobile handsets and provision of services with more attractive terms to new subscribers, and more new subscribers were developed under such preferential packages during the year. In the fourth quarter of 2010, we determined to adopt the accounting policy to use relative fair value method to account for the bundled sale of mobile handsets and provision of services retrospectively from January 1, 2010. The purpose of the change in this accounting policy is to provide reliable and more relevant information for users of the financial statements given that each of the handset and service elements in a bundled sale has stand-alone value to the customer and there is objective and reliable evidence of the fair value of the handset and service elements in a bundled sale. Under the relative fair value method, the total revenue from such bundled sale is allocated to service revenue and sales of handsets based on their relative fair values. The change in accounting policy resulted in (i) an increase of our revenue, income before income tax, net income and earnings per share of RMB3,208 million, RMB3,208 million, RMB2,406 million and RMB0.11, respectively for the year ended December 31, 2010; and (ii) a decrease in advance from customers of RMB3,317 million as of December 31, 2010. The above change in accounting policy did not have a significant impact on the financial statements for the years ended December 31, 2009 and 2008, and accordingly, we did not restate the comparative figures; and

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; or (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

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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 revenue 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.

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 (2008: approximately 3 years; 2009: 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 (2008: approximately 10 years; 2009: approximately 10 years). The related direct incremental installation costs are deferred and amortized over the same expected customer service period of 10 years.

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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 revenue 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.

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When applying the merger accounting/predecessor values method to account for the 2009 Business Combination, we included all the assets and liabilities, revenue and expenses associated with the Target Business and the fixed-line telecommunications networks of the 21 provinces in southern China, or the Telecommunications Networks in Southern China, in the consolidated balance sheet and the consolidated statement of income throughout the periods presented. 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 reflect the economic substance that we have not taken on the risks and rewards associated with the property, plant and equipment and related assets and liabilities relating to the fixed-line business in southern China, we are deemed to have disposed of the assets not acquired and liabilities not assumed and have recorded the deemed disposal of these assets and liabilities as a distribution from reserves by us to Unicom Group upon the completion of the 2009 Business Combination effective from January 2009.

Subsequent to the completion of the 2009 Business Combination, we recorded leasing fees amounting to approximately RMB2.2 billion (2009: RMB2.0 billion) charged by Unicom New Horizon for the lease of the Telecommunications Networks in Southern China for the year ended December 31, 2010 (Note 4.2(c) to our consolidated financial statements).

Lease of Telecommunications Networks in Southern China

Pursuant to an agreement in relation to the lease of the Telecommunications Networks in Southern China between CUCL and Unicom Horizon dated December 16, 2008, Unicom New Horizon has the legal ownership of the Telecommunications Networks in Southern China. We believe we only bear the risks associated with the operation of the fixed-line business in southern China during the relevant leasing periods and are 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. In addition, at the inception of the lease agreement, there was a high degree of uncertainty related to the market condition and operating results of the fixed-line business in southern China. It was highly uncertain whether we would continue to lease the network in the future, and were also unable to determine whether or not we would exercise the purchase option in future. Given these uncertainties and due to the fact that the risks associated with the ownership of the Telecommunications Networks in Southern China substantially remained with Unicom New Horizon, accordingly, we accounted for the leasing of the Telecommunications Networks in Southern China as an operating lease. The operating lease expense was recorded in the consolidated statement of income for the years ended December 31, 2009 and 2010, but the carrying value of the Telecommunications Networks in Southern China and the related liabilities were not reflected in the consolidated balance sheets as of December 31, 2009 and 2010.

At the beginning of each lease term, we assess the appropriate classification based on the relevant factors and circumstances at that time. On October 29, 2010, CUCL entered into the 2011-2012 Network Lease Agreement with Unicom New Horizon. The 2011-2012 Network Lease Agreement has an initial term of two years, effective from January 1, 2011 and expiring on December 31, 2012, which is renewable at the option of CUCL with at least two months prior notice on the same terms and conditions as the network lease agreement dated December 16, 2008, except that the annual fee payable by CUCL for such lease for the two years ending December 31, 2011 and 2012 is RMB2.4 billion and RMB2.6 billion, respectively. At the time of entering into the 2011-2012 Network Lease Agreement, we still believed the uncertainties of the fixed-line business in southern China continue to exist, particularly due to the fact that (i) the growth of the fixed-line business in southern China was not significant; (ii) the future success of the fixed-line business in southern China remained uncertain, in light of the keen market competition; and (iii) the technology, technological standards and government regulatory environment in respect of the relevant business are still subject to uncertainties. Accordingly, we were not in a position to determine whether we would renew the lease after the initial two-year lease term or whether we would exercise the purchase option upon the entering into the 2011-2012 Network Lease Agreement. As a result, we considered the risks associated with the ownership of the Telecommunications Networks in Southern China still substantially remain with Unicom New Horizon, and therefore accounted for the leasing of Telecommunications Networks in Southern China under the 2011-2012 Network Lease Agreement as an operating lease.

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Accounting to Available-for-Sale Assets

Available-for-sale financial assets are carried at fair value. Changes in the fair value of available-for-sale assets are recognized in other comprehensive income or loss until impairment. We assess 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. Prior to our adoption of IFRS/HKFRS 9 Financial Instruments in January 2011, if available-for-sale equity investments are impaired, the accumulated reduction in fair value will be reclassified from equity to the statement of income as impairment loss of available-for-sale financial assets. We consider all available relevant factors, including the fair value of the shares, the period of the decline of fair value, exchange rate and share price volatility and future business prospects, when determining whether there is any impairment.

As of December 31, 2010, our available-for-sale financial assets are principally the equity investment in Telefónica. The net decline in fair value during 2010 was partially due to the depreciation of Euro against RMB of approximately 10% in 2010. In addition, the quoted Euro market price of Telefónica shares experienced fluctuations as a result of the credit rating downgrades for certain Euro zone countries in the middle of 2010. The Euro share price of Telefónica increased and exceeded the initial Euro share value in a certain period during the third quarter of 2010 but it had decreased on a net basis by approximately 13% for the year 2010. Subsequently, during the period from January 1, 2011 to May 24, 2011, there was an appreciation of Euro against RMB of approximately 4%, and a decrease in share price in Euro of approximately 2%, as compared to December 31, 2010.

In addition, we received cash dividends of RMB209 million and RMB480 million from this strategic investment for the years ended December 31, 2009 and 2010, respectively. Based on our judgment , the observed decline in the fair value below the cost of the equity investments in Telefónica was not considered to be significant or prolonged, in light of the ongoing exchange rate and share price volatility, the solid operating results and business prospects of Telefónica, its regular dividend distribution and strategic relationships with us, and therefore did not indicate any impairment as of December 31, 2010.

On January 1, 2011, we early adopted IFRS/HKFRS 9 Financial Instruments . Upon adoption of this standard, the balance of available-for-sale fair value reserve was transferred to investment revaluation reserve. In addition, we have made an irrevocable election upon initial adoption of the standard to recognize changes in fair value of available-for-sale financial assets only through other comprehensive income or loss. Thus, there will be no subsequent recycling of fair value gains and losses to the statement of income. Upon adoption, IFRS/HKFRS 9 will be applied retrospectively to all periods presented.

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 are materially different from their carrying amounts. If the revalued amounts differ significantly from the carrying amounts of the 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 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 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, 2010.

Impairment of Non-Financial Assets

We test whether non-financial 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-financial 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-financial 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 RMB11.84 billion 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, 2009 and 2010.

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.

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 re-evaluate 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 RMB4,840 million as at December 31, 2010 (2009: approximately RMB5,202 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, 2010 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 2010 financial statements, the following new interpretation to existing standard has been issued but not yet effective for the annual accounting period ended December 31, 2010 and has not been adopted by us:

		Effective for annual accounting period beginning on or after
IFRIC/(HK)IFRIC Int 19	Extinguishing financial liabilities with equity instruments	July 1, 2010

On January 1, 2011, we early adopted IFRS/HKFRS 9 Financial instruments . Upon adoption of this standard, the balance of available-for-sale fair value reserve is transferred to investment revaluation reserve. In addition, we have made an irrevocable election upon initial adoption of the standard to recognize changes in fair value of available-for-sale financial assets only through other comprehensive income/loss. Thus, there will be no subsequent recycling of fair value gains and losses to the statement of income. IFRS/HKFRS 9 will be applied retrospectively to all periods presented.

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Operating Results

Acquisition of Fixed-Line Telecommunications Business in 21 Provinces in Southern China

In the 2009 Business Combination, we did not purchase the underlying fixed-line network assets in southern China, but subsequently leased such assets from Unicom New Horizon, a wholly-owned subsidiary of Unicom Group, to operate the acquired fixed-line business. To account for this transaction, we recorded all assets, liabilities, revenue and costs and expenses associated with the acquired fixed-line business in southern China and the underlying network assets in our consolidated financial statements for the historical periods prior to the completion of the transaction in January 2009. Following the completion of this transaction, as we started to lease the fixed-line network assets in southern China, which were retained by the lessor, the assets and liabilities associated with these network assets were treated as a distribution by us to Unicom Group from other reserve using the merger accounting under HKFRS and predecessor values method under IFRS. Accordingly, we no longer include any assets, liabilities, depreciation, finance costs or other costs relating to such assets, but record only revenue generated from the acquired fixed-line business in southern China and the leasing fee for the relevant network assets in our consolidated financial statements for the subsequent periods.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

Revenue

2010 is the second year that we had a full-year operation following our merger with China Netcom. Although China s economy experienced recovery from the global financial crisis, we continue to face various challenges, including intensified telecommunications market competition, further downward adjustments in tariffs and decline of fixed-line voice business. We continued to actively develop full-service operation with a focus on mobile and fixed-line broadband businesses. Revenue from our continuing operations for 2010 was RMB171.30 billion, an increase of 11.3% from RMB153.95 billion for 2009. Excluding the effects of fixed-line upfront connection fees of RMB0.19 billion and RMB0.49 billion in 2010 and 2009 respectively, our revenue from continuing operations for 2010 would have been RMB171.11 billion, representing an increase of 11.5% from RMB153.46 billion in 2009, of which our telecommunications service revenue would have been RMB161.80 billion in 2010, up by 8.5% from 2009.

Mobile Business Revenue

Revenue from our mobile business increased by 24.4% from RMB71.99 billion in 2009 to RMB89.55 billion in 2010. Of the revenue from our mobile business in 2009 and 2010, RMB69.77 billion and RMB82.36 billion, respectively, was from telecommunications service. Telecommunications service revenue from our mobile business as a percentage of our total telecommunications service revenue (excluding fixed-line upfront connection fees of RMB0.19 billion and RMB0.49 billion in 2010 and 2009 respectively) increased from 46.8% in 2009 to 50.9% in 2010. The growth in revenue from our mobile business is primarily due to the continued increase in the total number of our mobile subscribers, as well as an increase in our subscribers ARPU. The increase in ARPU was due to the change of revenue mix between our GSM business and 3G business. 3G business has a significantly higher ARPU than GSM business. Therefore, despite the ARPU of each of our GSM and 3G businesses decreased in 2010 compared to 2009, as the revenue from 3G business increased significantly as a percentage of total telecommunications service revenue from mobile business from 1.1% in 2009 to 14.1% in 2010, the overall ARPU of our mobile business increased. In 2010, revenue from 3G business was RMB11.59 billion.

Our total number of mobile subscribers was 167.43 million as of December 31, 2010, with a net addition of 19.84 million subscribers (including 11.32 million 3G subscribers) from the end of 2009. ARPU of our GSM mobile business was RMB39.5 in 2010, a decrease of 4.1% from RMB41.2 in 2009. ARPU of our 3G business was RMB124.0 in 2010, a decrease of 12.5% from 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, 2009 and 2010.

	2009		2010	
	RMB in millions	As % of total	RMB in millions	As % of total
Total revenue from mobile business	71,991	100.0	89,550	100.0
Telecommunications service revenue	69,769	97.0	82,362	92.0
Usage fees and monthly fees	42,297	58.8	47,004	52.5
Value-added service revenue	19,070	26.5	25,852	28.9
Interconnection revenue	8,220	11.4	9,022	10.1
Other service revenue	182	0.3	484	0.5
Other revenue	252	0.3	15	
Sales of mobile telecommunications products	1,970	2.7	7,173	8.0

Usage Fees and Monthly Fees. As a result of an increase in mobile subscribers, partially offset by the decrease in effective tariffs, usage fees and monthly fees for our mobile services were RMB47.00 billion in 2010, an increase of 11.1% from RMB42.30 billion in 2009.

Value-Added Service Revenue. In 2010, we continued to actively promote mobile value-added services and mobile data business, and improved the penetration of SMS, Cool Ringtone and mobile Internet services. As a result, revenue from our mobile value-added services amounted to RMB25.85 billion in 2010, representing an increase of 35.6% from RMB19.07 billion in 2009 and as a percentage of total mobile revenue increased from 26.5% in 2009 to 28.9% in 2010. Of the total revenue from mobile value-added services, revenue from our SMS services increased by 1.8% from RMB7.92 billion in 2009 to RMB8.07 billion in 2010, revenue from Cool Ringtone services increased by 6.8% from RMB2.88 billion in 2009 to RMB3.08 billion in 2010 and revenue from mobile Internet services increased by 174.6% from RMB2.80 billion in 2009 to RMB7.70 billion in 2010.

Interconnection Revenue. Our interconnection revenue increased by 9.8% from RMB8.22 billion in 2009 to RMB9.02 billion in 2010, and represented 10.1% of total mobile revenue in 2010 as compared with 11.4% in 2009. This increase is primarily as a result of the increased total usage of our mobile services due to the increased total number of our mobile subscribers.

Sales of Telecommunications Products. Revenue from our sale of mobile telecommunications products increased from RMB1,970 million in 2009 to RMB7,173 million in 2010, mainly due to our continuing efforts in promoting our bundled sale of 3G mobile handsets and provision of 3G mobile services.

Fixed-Line Business Revenue

In 2010, as mobile substitution further intensified and the declining trend of the fixed-line voice business continued, we further developed our fixed-line broadband services and promoted our mobile and fixed-line bundled services. Excluding fixed-line upfront connection fees of RMB0.49 billion and RMB0.19 billion in 2009 and 2010, respectively, our revenue from fixed-line business would have decreased by 1.2% from RMB80.86 billion in 2009 to RMB79.86 billion in 2010, of which telecommunications service revenue would have decreased by 0.4% from RMB79.06 billion in 2009 to RMB78.70 billion in 2010. 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.

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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, 2009 and 2010.

	For the Year Ended December 31,			
	2009		2010	
	RMB in millions	As % of Total	RMB in millions	As % of Total
Total revenue from fixed-line business(1)	80,863	100.0	79,864	100.0
Telecommunications service revenue(1)	79,059	97.8	78,704	98.6
Usage fee and monthly fee(1)	34,369	42.5	29,085	36.4
Fixed-line broadband, managed data and other Internet-related services revenue	26,364	32.6	32,595	40.8
Interconnection revenue	5,599	6.9	5,243	6.6
Value-added service revenue	5,238	6.5	4,860	6.1
Leased line service revenue	5,683	7.0	5,589	7.0
Others	1,806	2.3	1,332	1.7
Information communication technology services and other revenue	1,611	2.0	1,046	1.3
Sales of fixed-line telecommunications products	193	0.2	114	0.1

(1) Excluding fixed-line upfront connection fees of RMB0.49 billion in 2009 and RMB0.19 billion in 2010. 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. Therefore, we consider that analyses of our operating results excluding upfront connection fees 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 2010 by 6.0% from 102.82 million at the end of 2009 to 96.64 million at the end of 2010. ARPU of the local telephone business decreased by 8.0% from 2009 to RMB28.9 in 2010. Total usage of local calls decreased by 16.2% from 2009 to 155.56 billion pulses in 2010 (excluding Internet dial-up usage) and total usage of long distance calls decreased by 20.2% from 33.58 billion minutes in 2009 to 26.79 billion minutes in 2010. As a result, revenue from our usage fees and monthly fees in 2010 decreased by 15.4% from RMB34.37 billion in 2009 to RMB29.09 billion in 2010.

Fixed-Line Broadband, managed data and other Internet-related services revenue. Revenue from our fixed-line broadband, managed data and other internet-related service include revenue generated from DSL, LAN, and broadband-related value-added services, fees that we charge for our DDN, frame relay, ATM, MPLS-VPN and X.25 services and revenue from the provision of Internet dial-up services (other than communication fees) and dedicated Internet access services. Revenue from our fixed-line broadband, managed data and other internet-related service increased by 23.6% from RMB26.36 billion in 2009 to RMB32.60 billion in 2010, as a result of increases in both revenue from fixed-line broadband services and from managed data and other Internet-related services services.

In 2010, our fixed-line broadband business continued to maintain a rapid growth as a result of our efforts in improving broadband access speed, adopting multi-service bundling strategy, enriching application contents and implementing diversified sales strategies. The number of our fixed-line broadband subscribers increased by 22.5% from 2009 to

47.22 million in 2010. ARPU of our fixed-line broadband business remained stable at RMB57.2 in 2009 and RMB57.1 in 2010. However, revenue from our fixed-line broadband service increased significantly by 24.8% from 2009 to RMB29.82 billion in 2010, and as a percentage of the total fixed-line revenue, increased from 29.6% in 2009 to 37.3% in 2010. 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. Revenue from our managed data services and other Internet-related services increased by 12.4% from RMB2.47 billion in 2009 to RMB2.77 billion in 2010.

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 6.4% from RMB5.60 billion in 2009 to RMB5.24 billion in 2010. 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 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 7.2% from RMB5.24 billion in 2009 to RMB4.86 billion in 2010, mainly due to the decrease in the usage of our caller identification, Personalized Ring, 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 decreased by 1.7% from RMB5.68 billion in 2009 to RMB5.59 billion in 2010.

Others. Other fixed-line related revenue mainly consists of miscellaneous revenue items. Other fixed-line related revenue decreased by 26.2% from RMB1.81 billion in 2009 to RMB1.33 billion in 2010.

Information Communication Technology Services and Other Revenue. Information communication technology services and other revenue decreased by 35.1% from RMB1.61 billion in 2009 to RMB1.05 billion in 2010, mainly due to the decrease in other revenue in 2010.

Sales of Telecommunications Products. Revenue from our sales of fixed-line telecommunications products decreased by 40.9% from RMB0.19 billion in 2009 to RMB0.11 billion in 2010, mainly due to the decrease in sales of telecommunications terminal products such as telephone sets associated with local voice services in 2010.

Costs, Expenses and Others

Total costs, expenses and others for our continuing operations in 2010 were RMB166.53 billion, representing an increase of 17.5% from RMB141.67 billion in 2009. Excluding the effects of the realized gains of RMB1.24 billion on changes in fair value of derivative financial instrument in 2009, our total costs, expenses and others for our continuing operations in 2010 increased by 16.5% from RMB142.91 billion in 2009.

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 2009 and 2010:

	For the Year Ended December 31,			
	2009		2010	
	RMB in millions	% of Total	RMB in millions	% of Total
Total telecommunications services revenue[1]	149,103	100.0	161,803	100.0
Costs, expenses and others	141,668	95.0	166,525	102.9
Interconnection charges	12,955	8.7	13,727	8.5
Depreciation and amortization	47,587	31.9	54,433	33.6
Networks, operations and support expenses	23,728	15.9	26,383	16.3
Employee benefit expenses	21,931	14.7	23,327	14.4
Selling and marketing	21,020	14.1	23,733	14.7
Cost in relation to information communication technology services	839	0.6	895	0.6
General, administrative and other expenses	12,175	8.2	12,953	8.0
Cost of telecommunications products sold	2,689	1.8	10,688	6.6
Finance costs, net of interest income	945	0.6	1,607	1.0
	(1,239)	(0.8)		

Realized gains on changes in fair value of derivative financial instrument				
Other income-net	(962)	(0.7)	(1,221)	(0.8)

(1) Excludes fixed-line upfront connection fees of RMB0.49 billion in 2009 and RMB0.19 billion in 2010.

Interconnection Charges. Interconnection charges were RMB13.73 billion in 2010, up by 6.0% from 2009, primarily due to an increase in mobile interconnection traffic volume resulting from the increase of total usage of our mobile services. The increase in interconnection charges is consistent with the increase in interconnection revenues. Interconnection charges as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees) was 8.5% and 8.7% in 2010 and 2009, respectively.

Depreciation and Amortization. Our depreciation and amortization expenses were RMB54.43 billion in 2010, up by 14.4% from 2009. The increase was primarily because we focused on improving our 3G network capacity and expanding the 3G network coverage. Meanwhile, we continued to optimize our GSM network and expedited the broadband upgrade. As a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees), our depreciation and amortization expenses increased from 31.9% in 2009 to 33.6% in 2010.

Networks, Operations and Support Expenses. Due to various factors, including the expansion of networks, facilities and base stations and the increases in utilities charges and rental expenses, we incurred networks, operations and support expenses of RMB26.38 billion in 2010, up by 11.2% from 2009. Networks, operations and support expenses, as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees), increased from 15.9% in 2009 to 16.3% in 2010. As a result of an increase in the lease of underlying telecommunications networks from other telecommunications operators, the related line leasing fees was RMB1.54 billion, up by 29.4% from 2009. 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 RMB2.20 billion for leasing those telecommunications networks in 2010.

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 6.4% from 2009 to RMB23.33 billion in 2010, and as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees), decreased from 14.7% in 2009 to 14.4% in 2010.

Selling and Marketing Expenses. Due to various factors, including the increased promotion of our key businesses such as 3G and broadband services and the increased costs of customer retention and channel subsidies, in 2010, our total selling and marketing expenses reached RMB23.73 billion, up by 12.9% from 2009, and as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees), increased from 14.1% in 2009 to 14.7% in 2010.

Cost in Relation to Information Communication Technology Services. Cost in relation to information communication technology in 2010 was RMB0.90 billion, up by 6.7% from last year. Correspondingly, revenue from ICT services in 2010 was RMB1.05 billion, up by 1.3% from last year.

General, Administrative and Other Expenses. We continued to closely control the growth of general and administrative expenses. Our general, administrative and other expenses was RMB12.95 billion in 2010, up by 6.4% compared with last year, and as a percentage of telecommunications service revenue (excluding fixed-line upfront connection fees), slightly decreased from 8.2% in 2009 to 8.0% in 2010.

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Cost of Telecommunications Products Sold. In 2010, we launched more than one hundred models of custom-made 3G handsets (including iPhone 4), proactively implemented handsets subsidies packages and developed 3G contracting subscribers. As a result, the cost of telecommunications products sold amount to RMB10.69 billion, up by 297.5% from 2009. Correspondingly, revenue from sale of telecommunications products in 2010 amounted to RMB7.29 billion, up by 236.9% from 2009.

Finance Costs, Net of Interest Income. In 2010, we adopted low cost fund raising strategy including the issuance of commercial papers, promissory notes and convertible bonds to decrease our overall cost of capital to 3.2% from 4.1% in 2009. However, due to various factors including the increase in our interest-bearing debt, our finance costs, net of interest income, increased by 70.1% from RMB0.94 billion in 2009 to RMB1.61 billion in 2010.

Realized 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 US$1 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 December 31, 2009.

Other Income-Net. In 2010, other income-net was RMB1.22 billion, up by 26.9% from 2009, of which, dividend received from investment in Telefónica was RMB0.48 billion, up by RMB0.27 billion from 2009.

Income Before Income Tax

In 2010, our income before income tax was RMB4.77 billion, down by 61.2% from 2009, mainly due to our initial development of the 3G business, in respect of which the related revenue is not yet sufficient to cover the increased costs and expenses, including depreciation and amortization charges, networks, operations and support expenses and selling and marketing expenses related to 3G handset subsidy cost.

In order to ensure the comparability of income before income tax and income for the year, we exclude the following non-comparable factors that are reflected in the figures of 2009 and 2010 for additional analysis purpose:

(1) deferred fixed-line upfront connection fees of RMB0.19 billion for 2010 and RMB0.49 billion for 2009; and

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

After excluding the above factors, our income before income tax would have been RMB4.58 billion, down by 56.6% from 2009.

Income Tax

Our income tax was RMB0.92 billion in 2010, down by 66.1% from 2009, and our effective tax rate in 2010 was 19.3%. Such decrease is mainly due to various factors, including the utilization of tax loss from the previous years of a subsidiary of our company against the current year taxable income and other favorable tax treatments. After excluding the factors discussed under Income Before Income Tax above, our effective tax rate in 2009 and 2010 would have been 22.9% and 20.1%, respectively.

Net Income for the Year

In 2010, our net income reached RMB3.85 billion, down by 59.7% from 2009. Our basic earnings per share was RMB0.163 in 2010. After excluding the factors discussed under the subsection Income Before Income Tax above, our net income from continuing operations would be RMB3.66 billion, down by 55.0% from 2009.

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 fixed-line voice business, we actively developed full-service operation with a focus on mobile and fixed-line broadband businesses. Revenue 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 revenue 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 revenue (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 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, revenue 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. Revenue 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 telecommunications 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
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, managed data and other internet-related service revenue	23,624	25.6	26,364	32.6
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
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) Excludes 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, revenue 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, managed data and other Internet-related services revenue. Revenue from our fixed-line broadband, managed data and other internet-related service include revenue generated from DSL, LAN, and broadband-related value-added services, fees that we charge for our DDN, frame relay, ATM, MPLS-VPN and X.25 services and revenue from the provision of Internet dial-up services (other than communication fees) and dedicated Internet access services. Revenue from our fixed-line broadband, managed data and other internet-related service increased by 11.6% from RMB23.62 billion in 2008 to RMB26.36 billion in 2009, as a result of an increase in revenue from fixed-line broadband services, partially offset by a decrease in revenue from managed data and other Internet-related services 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, revenue 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. 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 decreased by 19.8% from RMB1.25 billion in 2008 to RMB1.01 billion in 2009.

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 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.

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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.

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 9.0% from RMB155.73 billion in 2008. Excluding the effects of the following non-comparable items: (i) realized gains of RMB1.24 billion on changes in fair value of derivative financial instrument in 2009; (ii) impairment loss of RMB11.84 billion on PHS services related equipment in 2008; and (iii) gain of RMB0.04 billion from the non-monetary assets exchange in 2009 and RMB1.31 billion in 2008, our total costs, expenses and others for our continuing operations in 2009 would have been RMB142.95 billion, representing a decrease of 1.6% from RMB145.20 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	155,733	103.2	141,668	95.0
Interconnection charges	13,038	8.6	12,955	8.7
Depreciation and amortization	51,847	34.3	47,587	31.9
Networks, operations and support expenses	18,736	12.4	23,728	15.9
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	13,217	8.8	12,175	8.2
Cost of telecommunications products sold(1)	2,156	1.4	2,689	1.8
Finance costs, net of interest income	3,004	2.0	945	0.6
Impairment loss on property, plant and equipment	12,494	8.3		
Realized gains on changes in fair value of derivative financial instrument			(1,239)	(0.8)
Other income-net	(2,141)	(1.4)	(962)	(0.7)

(1) Excludes 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.

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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. Our depreciation and amortization expenses were RMB47.59 billion in 2009, down by 8.2% from 2008. The decrease was primarily due to the following factors (i) we no longer record any depreciation of the fixed-line network assets in southern China as a result of our acquisition from Unicom Group of the telecommunications business in 21 provinces in southern China in 2009 (see Acquisition of Fixed-Line Telecommunications Business in 21 Provinces in Southern China above), (ii) our full provision of the impairment loss on the PHS service related equipment in 2008, and (iii) to a lesser extent, the full depreciation of certain property, plant and equipment (other than the fixed-line network assets in southern China) in 2008. This decrease was partially offset by the increase in the depreciation and amortization expenses of 3G network assets of RMB0.65 billion in the fourth quarter of 2009. 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), our depreciation and amortization expenses decreased from 34.3% in 2008 to 31.9% in 2009.

Networks, Operations and Support Expenses. 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. In addition, 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 RMB23.73 billion in 2009, up by 26.6% 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 15.9% 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.

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 7.9% 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 8.8% 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, due to the following factors: (i) reduction of base lending rate and the increase in the amount of capitalized interest related to the construction we undertook in 2009, and (ii) we no longer record any finance costs associated with the fixed-line network assets in southern China as a result of our acquisition from Unicom Group of the telecommunications business in 21 provinces in southern China in 2009 (see Acquisition of Fixed-Line Telecommunications Business in 21 Provinces in Southern China above), our finance costs, net of interest income, decreased by 68.5% from RMB3.00 billion in 2008 to RMB0.95 billion in 2009.

Impairment Loss on Property, Plant and Equipment

Our impairment loss on property, plant and equipment was nil in 2009 and RMB12.49 billion in 2008, mainly consisting of impairment loss on PHS services related equipment and fixed-line network assets in southern China.

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. In addition, we no longer record any impairment loss associated with the fixed-line network assets in southern China as a result of our acquisition from Unicom Group of the telecommunications business in 21 provinces in southern China in 2009 (see Acquisition of Fixed-Line Telecommunications Business in 21 Provinces in Southern China above).

Realized 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 US$1 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 December 31, 2009.

Other Income-Net. In 2009, other income-net was RMB0.96 billion, down by 55.1% 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 202.5% from 2008, mainly due to (i) we had provision for impairment loss on PHS business related equipment for 2008 but none for 2009 and (ii) a significant decrease in costs and expenses because (A) we no longer record depreciation, finance or other costs associated with the fixed-line assets in southern China as a result of our acquisition from Unicom Group of the telecommunications business in 21 provinces in southern China in 2009, and (B) the resulting decrease in depreciation, finance or other costs is greater than the amount of the leasing fee that we started to incur in 2009 with respect to such fixed-line assets (see Acquisition of Fixed-Line Telecommunications Business in 21 Provinces in Southern China above).

In order to ensure the comparability of income before income 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 non-monetary assets exchange for 2009 and RMB1.31 billion for 2008;

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

(4) 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 RMB10.51 billion, down by 23.3% 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 revenue from the 3G business. Such decrease in income from continuing operations before income tax was partially offset by the decrease in our total costs and expenses in 2009 as discussed above.

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 32.6% and 22.9%, respectively.

Net Income for the Year

In 2009, our net income from continuing operations reached RMB9.56 billion, up by 328.3% 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 RMB8.11 billion, down by 12.3% from 2008.

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Liquidity and Capital Resources

Working Capital and Cash Flows

As of December 31, 2010, we had RMB22.50 billion of cash and cash equivalents, as compared with RMB7.82 billion as of December 31, 2009 and RMB10.24 billion as of December 31, 2008. As of December 31, 2010, we had RMB0.27 billion of short-term bank deposits, as compared with RMB1.00 billion as of December 31, 2009. As of December 31, 2010, we had a working capital deficit (current liabilities less current assets) of RMB156.03 billion, representing a decrease by 7.8% from the working capital deficit of RMB169.21 billion as of December 31, 2009. The decrease in working capital deficit in 2010 primarily resulted from the increase in our cash and cash equivalents.

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 had a material adverse impact on economic activity in the PRC in 2008 and 2009. 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, 2010, we had revolving banking facilities of RMB114.0 billion, of which, RMB88.4 billion was unutilized. Meanwhile, we will continue to optimize our fund raising strategy from short, medium and long-term perspectives and maintain reasonable financing costs through appropriate financing portfolio. 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 2008, 2009 and 2010.

	For the Year Ended December 31,		
	2008	**2009**	**2010**
	RMB in millions	**RMB in millions**	**RMB in millions**
Net cash inflow from operating activities of continuing operations	57,241	57,733	66,344
Net cash outflow from investing activities of continuing operations	(61,026)	(85,308)	(76,614)
Net cash (outflow)/inflow from financing activities of continuing operations	(28,786)	30,197	19,824
Net cash (outflow)/inflow from continuing operations	**(32,571)**	**2,622**	**9,554**
Net cash inflow/(outflow) from discontinued operations	**30,145**	**(5,039)**	**5,121**
Net (decrease)/increase in cash and cash equivalents	**(2,426)**	**(2,417)**	**14,675**

Our net cash inflow from operating activities of continuing operations increased by 0.9% from RMB57.24 billion in 2008 to RMB57.73 billion in 2009, and further increased by 14.9% to RMB66.34 billion in 2010. The increase in net cash inflow from operating activities in 2010 was mainly due to an increase in cash generated from operations as a result of 3G business development and a decrease in the amount of income tax paid as a result of the lower income before income tax.

Our net cash outflow from investing activities of continuing operations increased by 39.8% from RMB61.03 billion in 2008 to RMB85.31 billion in 2009, and decreased by 10.2% to RMB76.61 billion in 2010. The increase in 2009 was mainly due to the significant increase in our capital expenditure attributable to 3G network construction, partially offset by the effect that we no longer have any cash outflow from investing activities associated with the construction of fixed-line network assets in southern China, as a result of our acquisition from Unicom Group of the telecommunications business in 21 provinces in southern China in 2009 (see Acquisition of Fixed-Line

Telecommunications Business in 21 Provinces in Southern China above). The decrease in 2010 was mainly due to the effect that we no longer have any cash outflow from investing activities associated with the consideration for purchase of entities and businesses under common control.

Our net cash outflow from financing activities changed from RMB28.79 billion in 2008 to net cash inflow from financing activities of RMB30.20 billion in 2009, primarily due to the increase in our short-term bank loans in 2009, partially offset by the effect that we no longer have any cash inflow from intercompany loans associated with the construction of fixed-line network assets, as a result of our acquisition from Unicom Group of the telecommunications business in 21 provinces in southern China in 2009 (see Operating Results above). Our net cash inflow from financing activities decreased to RMB19.82 billion in 2010, primarily as a result of a decrease in the net increase of our indebtedness in 2010 from 2009, reflecting our decreased needs for new financings, primarily due to the increase in our net cash inflow from operating activities and the decrease in our net cash outflow from investing activities.

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Our net cash inflow from discontinued operations changed from RMB30.15 billion in 2008 to net cash outflow of RMB5.04 billion in 2009, and further changed to net cash inflow of RMB5.12 billion in 2010, mainly resulting from our receipt of proceeds in 2008 in relation to the sale of our CDMA business, our payment made in 2009 of the income tax in relation to the sale of our CDMA business in 2008, and our receipt of proceeds in 2010 in relation to the disposal of our CDMA business in 2008.

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 2008, 2009 and 2010.

	As of December 31,		
	2008	2009	2010
	(RMB in millions, except percentages)		
Cash and cash equivalent and short-term bank deposits	10,652	8,816	22,768
Total assets	380,318	417,045	441,453
Short-term debt	21,996	66,601	61,944
Short-term bank loans	10,780	63,909	36,727
Commercial papers	10,000		23,000
Current portion of long-term bank loans	1,216	62	58
Amounts due to related parties		2,104	2,033
Notes payables included in accounts payable and accrued liabilities		500	
Current portion of obligations under finance lease included in other obligations		26	126
Long-term debt	43,649	7,862	35,098
Long-term loans due to ultimate holding company	35,652		
Promissory notes			15,000
Corporate bonds	7,000	7,000	7,000
Convertible bonds			11,558
Non-current portion of long-term bank loans	997	759	1,462
Non-current portion of obligations under finance lease		103	78
Equity attributable to owners of the parent	197,233	206,467	205,841
Debt-to-capitalization ratio(1)	25.0%	26.5%	32.0%
Debt-to-equity ratio(2)	33.3%	36.1%	47.1%

(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 + equity attributable to owners of the parent).

(2) Debt-to-equity ratio = (long-term interest-bearing debt + short-term interest-bearing debt)/equity attributable to owners of the parent.

Our debt-to-capitalization ratio was 32.0% at the end of 2010, compared to 26.5% at the end of 2009, and 25.0% at the end of 2008. Our debt-to-equity ratio was 47.1% at the end of 2010, compared to 36.1% at the end of 2009, and 33.3% at the end of 2008. 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 RMB74.27 billion as of December 31, 2010, compared to 65.65 billion as of December 31, 2009 and RMB54.99 billion as of December 31, 2008. 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 RMB38.25 billion at the end of 2010, compared to RMB64.73 billion at the end of 2009 and RMB12.99 billion at the end of 2008. The decrease in 2010 resulted primarily from a decrease in the borrowings of short-term bank loans. 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 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, 2010, 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 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 papers 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.

On September 20, 2010, CUCL completed the issue of the second tranche of commercial paper for the year 2010 in an amount of RMB8 billion, with a maturity period of 365 days and at an interest rate of 2.81% per annum. On the same date, CUCL completed the issue of the second tranche of promissory note for the year 2010 in an amount of RMB12 billion, with a maturity period of 3 years and at an interest rate of 3.31% per annum.

On October 18, 2010, Billion Express Investments Limited, a wholly-owned subsidiary of our company, issued the 2015 Convertible Bonds, which are guaranteed by our company and are exchangeable into ordinary shares of our company. Pursuant to the subscription agreement with respect to the 2015 Convertible Bonds, the holders of the 2015 Convertible Bonds may, beginning on November 28, 2010, elect to convert its bonds into our ordinary shares at an initial conversion price of HK$15.85 per share, subject to certain adjustments. As of April 30, 2011, none of the 2015 Convertible Bonds has been converted into our ordinary shares.

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Contractual Obligations and Commercial Commitments

The following table sets forth the amounts of our outstanding contractual cash obligations as of December 31, 2010.

	Total	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Short-term bank loans (1)*	37,319	37,319			
Commercial papers (2)*	23,621	23,621			
Long-term bank loans (3)*	1,734	103	94	1,004	533
Corporate bonds (4)*	8,425	355	355	5,535	2,180
Convertible bonds (5)*	12,634	91	91	12,452	
Promissory notes (6)*	16,528	509	509	15,510	
Other obligations	2,806	2,640	92	27	47
Capital commitments (7)	8,383	5,792	811	456	1,324
Operating leases commitments (7)					
Telecommunications networks leasing arrangement in 21 provinces in southern China	5,000	2,400	2,600		
Other commitments	6,403	1,846	1,331	2,276	950
Total obligations	122,853	74,676	5,883	37,260	5,034

* Interest included

(1) See Note 27 Short-Term Bank Loans to our consolidated financial statements.

(2) See Note 26 Commercial Papers to our consolidated financial statements.

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

(4) See Note 23 Corporate Bonds to our consolidated financial statements.

(5) See Note 22 Convertible Bonds to our consolidated financial statements.

(6) See Note 21 Promissory Notes to our consolidated financial statements.

(7) See Note 41 Contingencies and Commitments to our consolidated financial statements.

Trend Information

Please refer to the discussion in sections headed Overview and Operating Results under this Item 5.

Off-Balance Sheet Arrangements

As of December 31, 2010, except for the operating lease of the telecommunications networks in 21 provinces 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,					
	2009		2010		2011	
	(RMB in billions)	As a percentage	(RMB in billions)	As a Percentage	(RMB in billions)	As a Percentage
Mobile business	56.98	50.7%	23.17	33.0%	22.88	31.0%
Broadband and data business	18.80	16.7%	22.45	32.0%	18.75	25.4%
Infrastructure and transmission network	25.01	22.2%	16.96	24.2%	19.48	26.4%
Others (1)	11.68	10.4%	7.61	10.8%	12.69	17.2%
Total	112.47	100.0%	70.19	100.0%	73.80	100.0%

(1) Other expenditures consist of innovation and value-added platform, IT system, fixed-line business and procurement of miscellaneous assets, equipment and spare parts.

Our capital expenditure totaled RMB70.19 billion in 2010, which mainly consisted of investment in mobile business, broadband and data business, and infrastructure and transmission networks. In 2010, capital expenditure attributable to mobile business was RMB23.17 billion; capital expenditure attributable to broadband and data business was RMB22.45 billion; capital expenditure attributable to infrastructure and transmission networks was RMB16.96 billion.

Our projected capital expenditure for 2011 is estimated to be approximately RMB73.80 billion, a significant portion of which will continue to be used for investments in our mobile 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	54	Chairman of the Board of Directors and Chief Executive Officer
Lu Yimin	47	Executive Director and President
Tong Jilu(1)	53	Executive Director and Senior Vice President
Li Fushen(2)	48	Executive Director and Chief Financial Officer
Cesareo Alierta Izuel	66	Non-Executive Director
Cheung Wing Lam Linus	62	Independent Non-Executive Director
Wong Wai Ming	53	Independent Non-Executive Director
John Lawson Thornton	57	Independent Non-Executive Director
Timpson Chung Shui Ming	59	Independent Non-Executive Director
Cai Hongbin(3)	43	Independent Non-Executive Director
Li Jianguo	57	Senior Vice President
Li Gang	53	Senior Vice President
Zhang Junan	54	Senior Vice President
Jiang Zhengxin	54	Senior Vice President
Shao Guanglu(4)	47	Senior Vice President

(1) Mr. Tong Jilu resigned as the Chief Financial Officer of our company and was appointed as a Senior Vice President of our company, each on March 30, 2011. Mr. Zuo Xunsheng resigned as an Executive Director and a Senior Vice President of our company on March 30, 2011. Each of Mr. Pei Aihua and Mr. Zhao Jidong resigned as a Senior Vice President of our company on March 30, 2011.

(2) Mr. Li Fushen resigned as a Senior Vice President of our company and was appointed as an Executive Director and the Chief Financial Officer of our company, each on March 30, 2011.

(3) Mr. Cai Hongbin was appointed as an Independent Non-Executive Director of our company on May 13, 2010.

(4) Mr. Shao Guanglu was appointed as a Senior Vice President of our company on April 26, 2011.

Mr. Chang Xiaobing was appointed in December 2004 as an Executive Director, Chairman and Chief Executive Officer of the 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, Vice President of China Telecommunications Corporation, as well as Executive Director and President of China Telecom Corporation Limited. 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). Mr. Chang has served as a Director of Telefónica since May 2011. He also serves as the Chairman of Unicom Group, A Share Company and CUCL, respectively. Mr. Chang has extensive operational and managerial experience in the telecommunications industry.

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Mr. Lu Yimin was appointed as an Executive Director of the Company in October 2008 and President of the Company in February 2009. Mr. Lu, a researcher 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 Netcom Group in December 2007, serving as senior management. Mr. Lu has served as a Non-Executive Director of PCCW Limited (listed on the Hong Kong Stock Exchange 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 A Share Company, and a Director and President of CUCL. Mr. Lu has extensive experience in government administration and business management.

Mr. Tong Jilu was appointed as an Executive Director of the Company in February 2004 and Senior Vice President of the Company in March 2011. 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). From February 2004 to March 2011, Mr. Tong served as Chief Financial Officer of the Company. Mr. Tong now serves as a Director and Vice President of Unicom Group. He is also a Director of A Share Company, and a Director and Senior Vice President of CUCL. Mr. Tong has extensive operation and financial management experience in telecommunications companies.

Mr. Li Fushen was appointed in March 2011 as an Executive Director and Chief Financial Officer of the Company. 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. From February 2009 to March 2011, Mr. Li served as a Senior Vice President of the Company. In addition, Mr. Li has served as a Non-Executive Director of PCCW Limited (listed on the Hong Kong Stock Exchange with an American Depositary Receipt trading on the Pink Sheets OTC Market in the U.S.) since July 2007. Mr. Li is a Vice President of Unicom Group, a Director of A Share Company, 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.

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Mr. Cesareo Alierta Izuel was appointed in October 2008 as a Non-Executive Director of the Company. Mr. Alierta has been a member of the Board of Directors of Telefónica (listed on various stock exchanges including Madrid, New York and London) from January 1997 and has been Chairman of Telefónica since July 2000. Mr. Alierta is a member of the Board of Directors of Telecom Italia (listed on the stock exchange of Milan) and of International Consolidated Airlines Group (IAG, listed on the stock exchanges of Madrid and London). He is also the Chairman of the Social Board of the UNED (National Long Distance Spanish University) and 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. Cheung Wing Lam Linus was appointed in May 2004 as an Independent Non-Executive Director of the 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 Hong Kong Stock Exchange). 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 the Company. Mr. Wong is Senior Vice President and Chief Financial Officer of Lenovo Group Limited (listed on the Hong Kong Stock Exchange and the New York Stock Exchange). Besides, Mr. Wong is an Independent Non-Executive Director of I.T Limited (listed on the Hong Kong Stock Exchange) and a Non-Executive Director of Linmark Group (listed on the Hong Kong Stock Exchange). 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 the Company and is currently a Professor and Director of the Global Leadership Program at the Tsinghua University School of Economics and Management in Beijing. He is also the Chairman of the Board of Trustees of the Brookings Institution in Washington, D.C. 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 Hong Kong Stock Exchange, London Stock Exchange, New York Stock Exchange, Paris Stock Exchange and Bermuda Stock Exchange). He is also a Director of the Ford Motor Company (listed on the New York Stock Exchange) and News Corporation, Inc. (listed on the NASDAQ Global Select Market and the Australian Stock Exchange). Mr. Thornton is a trustee, advisory board member or member of the Asia Society, China Foreign Affairs University, China Institute, China Investment Corporation, China Reform Forum, China Securities Regulatory Commission, Council on Foreign Relations, General Atlantic, The

Hotchkiss School, McKinsey Knowledge Council, Morehouse College, and the National Committee on U.S.-China Relations. He is the Chairman of the Advisory Board of the Tsinghua University School of Economics and Management. Mr. Thornton served as a Director of Intel Corporation from July 2003 to May 2010, 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.

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Mr. Timpson Chung Shui Ming was appointed in October 2008 as an Independent Non-Executive Director of the Company. Mr. Chung is currently a member of the National Committee of the 11th Chinese People s Political Consultative Conference. He is also the Chairman of the Advisory Committee on Arts Development. Besides, Mr. Chung is an Independent Non-Executive Director of Glorious Sun Enterprises Limited, The Miramar Hotel & Investment Co. Limited, Nine Dragons Paper (Holdings) Limited and China Overseas Grand Oceans Group Limited (all listed on the Hong Kong Stock Exchange). Mr. Chung is also an Independent Director of China State Construction Eng. Corp. Ltd. and China Everbright Bank Company Limited (both 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 the Chairman of China Business of Jardine Fleming Holdings Limited, the Deputy Chief Executive Officer of BOC International Limited and the Independent Non-Executive Director of Tai Shing International (Holdings) Limited. He was also the Director General of Democratic Alliance for the Betterment and Progress of Hong Kong, the Chairman of the Council of the City University of Hong Kong, 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. Mr. Chung also received an honorary doctoral degree in Social Science from the City University of Hong Kong in 2010. Mr. Chung 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 the Company. Mr. Cai is currently the Dean of and a Professor in Applied Economics at Guanghua School of Management at Peking University, a Director of J. Mirrlees Institute of Economic Policy Research at Peking University and an Associate Director of Center of Poverty Research at Peking University. Besides, Mr. Cai is Independent Non-Executive Director of Concord Medical Services Holdings Limited (listed on the New York Stock Exchange), China Everbright Bank Company Limited (listed on the Shanghai Stock Exchange) and Beijing Venustech Inc. (listed on the Shenzhen Stock Exchange). 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 Ministry of Education of the PRC, or the Ministry of Education 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 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 the 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 the 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 the 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 for long period of time, and she has extensive working and management experiences in government, authorities and enterprises.

Mr. Li Gang was appointed as Vice President of the Company in April 2006 and Senior Vice President of the 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 (Unicom Group). From April 2006 to October 2008, Mr. Li served as an Executive Director of the 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 the Company in April 2006 and Senior Vice President of the 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 (Unicom Group). From April 2006 to October 2008, Mr. Zhang served as the Executive Director of the 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, as well as Director and Senior Vice President of CUCL. 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 the Company in February 2009. Mr. Jiang is a senior engineer of professor level. He received a bachelor s degree in radio engineering from Beijing University of Posts and Telecommunications in 1982, a master s degree in 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.

Mr. Shao Guanglu was appointed as Senior Vice President of the Company in April 2011. Mr. Shao is a senior engineer. He received a bachelor s degree from Harbin Institute of Technology in 1985, a master s degree in engineering and a master s degree in economics from Harbin Institute of Technology in 1988 and 1990, respectively, a master s degree in management from BI Norwegian Business School in 2002 and a doctor s degree in management from Nankai University in 2009. Mr. Shao joined China United Telecommunications Corporation in February 1995. In December 2008, China United Telecommunications Corporation changed its company name to China United Network Communications Group Company Limited (Unicom Group). Mr. Shao was Deputy General Manager of

Tianjin Branch, Deputy General Manager of Henan Branch, General Manager of Guangxi Branch, as well as General Manager of Human Resource Department of Unicom Group. Mr. Shao also serves as a Vice President of Unicom Group. Mr. Shao has worked in the telecommunications industry for a long period of time and has extensive management experience.

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B. Compensation

The aggregate compensation and other benefits paid by us to our directors as a group in 2010 was approximately RMB12.66 million, while retirement benefits paid by us were approximately RMB112,000. 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 2010.

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 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 2010.

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 and May 24, 2011	
Tong Jilu	February 1, 2004	May 12, 2004, May 12, 2006, May 16, 2008 and May 12, 2010	
Li Fushen	March 30, 2011	May 24, 2011	
Cesareo Alierta Izuel	October 15, 2008	May 26, 2009 and May 24, 2011	
Cheung Wing Lam Linus	May 12, 2004	May 12, 2006, May 16, 2008 and May 12, 2010	
Wong Wai Ming	January 19, 2006	May 12, 2006, May 26, 2009 and May 24, 2011	
John Lawson Thornton	October 15, 2008	May 26, 2009	
Timpson Chung Shui Ming	October 15, 2008	May 26, 2009	
Cai Hongbin	May 13, 2010	May 24, 2011	
Former Directors			
Zuo Xunsheng	October 15, 2008	May 26, 2009 and May 12, 2010	March 30, 2011
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;

- 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 April 30, 2011, the members of the audit committee are Mr. Wong Wai Ming (Chairman of the audit committee), Mr. Cheung Wing Lam Linus, Mr. John Lawson Thornton, Mr. Timpson Chung Shui Ming and Mr. Cai Hongbin.

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Remuneration Committee

The remuneration committee meets regularly to consider human resources issues, issuance of 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 April 30, 2011, the members of the remuneration committee are Mr. Cheung Wing Lam Linus (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, 2008, 2009 and 2010, we had a total number of 204,615, 321,772 and 310,030 employees, respectively. The employees as of December 31, 2010 are classified by function as follows:

By Function	**Number of Employees**
Employees	215,815
Management and administration	23,211
Sales and customer service	63,380
Product and Marketing	18,282
Network construction and maintenance	81,021
Support	27,392
Others	2,529
Temporary employees	94,215
Total	310,030

E. Share Ownership

As of April 30, 2011, our directors who own shares in our company are listed as follows:

Name	**Capacity and Nature**	**Ordinary Shares Held**	**Percentage of Total Issued Shares**
Cheung Wing Lam Linus	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 April 30, 2011, our other directors as a group do not own any shares in our company.

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As of April 30, 2011, our directors as a group hold options for 2,911,840 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 2010 (RMB in thousands)
Directors						
Chang Xiaobing	Beneficial Owner	526,000	December 20, 2012(3)	HK$6.20	HK$1.00	3,206
	(Personal)	746,000	February 14, 2013(3)	HK$6.35	HK$1.00	
Lu Yimin						2,637
Tong Jilu	Beneficial Owner	292,000	June 22, 2011(3)	HK$15.42	HK$1.00	2,408
	(Personal)	92,000	July 19, 2012(3)	HK$5.92	HK$1.00	
		460,000	February 14, 2013(3)	HK$6.35	HK$1.00	
	Beneficial Owner	32,000	July 19, 2012(3)	HK$5.92	HK$1.00	
	(Spouse)	40,000	February 14, 2013(3)	HK$6.35	HK$1.00	
Li Fushen	Beneficial Owner *(Personal)*	723,840	November 16, 2012(3)	HK$5.57		2,225
Cesareo Alierta Izuel						261
Cheung Wing Lam Linus						351
Wong Wai Ming						366
John Lawson Thornton						340
Timpson Chung Shui Ming						340
Cai Hongbin						217
Employees(2)		4,058,000	June 22, 2011(3)	HK$15.42	HK$1.00	
		8,956,000	May 20, 2012(3)	HK$4.30	HK$1.00	
		40,900,000	July 19, 2012(3)	HK$5.92	HK$1.00	
		128,000	December 20, 2012(3)	HK$6.20	HK$1.00	
		150,310,000	February 14, 2013(3)	HK$6.35	HK$1.00	
		99,131,916	November 16, 2012(3)	HK$5.57	HK$1.00	
		88,929,468	December 5, 2012(3)	HK$8.26	HK$1.00	

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

(2) In 2009, the exercise periods of approximately 25,000,000 options were extended by one year by the Board pursuant to the terms of the Pre-Global Offering Share Option Scheme and the Share Option Scheme. The reasons for such extension were that (i) the holders of those options were determined by the Board as 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) those options were not exercisable due to a Mandatory Moratorium under the respective terms of the Pre-Global Offering Share Option Scheme and the Share Option Scheme. Due to the Mandatory Moratorium continuing to be in force, the Board further extended the exercise periods of certain

options by one year in March 2010 and March 2011 under the respective terms of the Share Option Scheme. As of December 31, 2010, approximately 23,600,000 share options held by Transferred Personnel remained valid.

(3) In March 2010 and March 2011, the expiry dates for certain options were extended by one year by the Board pursuant to the 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 , which is still in force, 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 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. 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 April 30, 2011, 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. The share option scheme expired on June 21, 2010. Following the expiry of the share option scheme, no further option may be granted under the share option scheme, but the provisions of the share option scheme will remain in full force and effect to the extent necessary to give effect to the exercise of the options granted prior to the expiry or otherwise as may be required in accordance with the provisions of the share option scheme. As of April 30, 2011, 1,766,000 options (with an exercise price of HK$15.42), 34,131,200 options (with an exercise price of HK$6.18), 92,398,800 options (with an exercise price of HK$4.3), 366,000 options (with an exercise price of HK$4.66), 67,084,000 options (with an exercise price of HK$5.92) and 10,652,000 options (with an exercise price of HK$6.35) 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. The pre-global offering share option scheme expired on may June 21, 2010. Following the expiry of the pre-global offering share option scheme, no further option may be granted under the pre-global offering share option scheme, but the provisions of the pre-global offering share option scheme will remain in full force and effect to the extent necessary to give effect to the exercise of the options granted prior thereto or otherwise as may be required in accordance with the provisions of the pre-global offering share option scheme. On June 21, 2010, 16,977,600 options, representing all options validly granted and remaining valid under the pre-global offering share option scheme, lapsed. No such option was held by the directors. 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.

During the period from January 1, 2010 to June 21, 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, 2012 (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, 2012 (as extended by the Board), with an 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 April 30, 2011, 189,472,118 options granted under this scheme were outstanding and held by one director and approximately 690 of our employees. As of April 30, 2011, 84,448 options granted under the Special Purpose Share Option Scheme were exercised at an exercise price of HK$5.57 for each option.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

As of April 30, 2011, 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 April 30, 2011, most of our shareholders of record were located outside of the United States. In addition, as of April 30, 2011, there were approximately 52,300,000 ADSs outstanding, each representing 10 shares and together representing 2.22% of our total outstanding shares or 7.66% 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. All of these framework agreements expired by the end of 2010.

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. On October 29, 2010, CUCL and Unicom Group entered into a new comprehensive services agreement, or the 2010 comprehensive services agreement, to renew certain continuing related party transactions for a term of three years commencing on January 1, 2011 and expiring on December 31, 2013.

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.

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.

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Continuing Related Party Transactions under the 2010 Comprehensive Services Agreement

Under the two-step approach described under A. History and Development of the Company Two-Step Voting Arrangements of Item 4, the continuing transactions between CUCL and Unicom Group under the comprehensive services agreement entered into in 2006 were amended, or the amended comprehensive services agreement, 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. Pursuant to the amended comprehensive services agreement, Unicom Group agreed to provide certain services to CUCL and CNC China, being the supply of telephone cards, the provision of equipment procurement services, interconnection arrangements, the mutual provision of premises, the provision of international telecommunications network gateway, the provision of operator-based value-added services, the provision of value-added telecommunications services, the provision of 10010/10011 customer services, the provision of agency services and the provision of engineering design and technical services, until December 31, 2010. 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.

On October 29, 2010, CUCL and Unicom Group entered into the 2010 comprehensive services agreement to renew certain continuing connected transactions for a term of three years commencing on January 1, 2011 and expiring on December 31, 2013. Unless CUCL notifies Unicom Group at least 60 days prior to the expiration of such agreement of their intention not to renew the 2010 comprehensive services agreement, such agreement shall automatically be renewed for a further period of three years.

Details of the continuing related party transactions under the 2010 comprehensive services agreement are summarized below.

Telecommunications Resources Leasing

Unicom Group agrees to lease to CUCL certain international telecommunications resources and certain other telecommunications facilities required by CUCL for its operations.

The rental charges for the leasing of international telecommunications resources and other telecommunications facilities are based on the annual depreciation charges of such resources and telecommunications facilities provided that such charges would not be higher than market rates. CUCL will be responsible for the on-going maintenance of the leased international telecommunications resources. CUCL and Unicom Group will determine and agree which party is to provide maintenance service to the leased telecommunications facilities. Unless otherwise agreed by CUCL and Unicom Group, such maintenance service charges would be borne by CUCL. If Unicom Group is responsible for maintaining any leased telecommunications facilities, CUCL will pay to Unicom Group the relevant maintenance service charges which will be determined with reference to market rates, or where there are no market rates, be agreed between the parties and determined on a cost-plus basis. The net rental charges and service charges due to Unicom Group for the provision of the leased telecommunications resources leasing will be settled between CUCL and Unicom Group on a quarterly basis.

Property Leasing

CUCL and Unicom Group agree to lease to each other properties and ancillary facilities belonging to CUCL or Unicom Group (including their respective branch companies and subsidiaries).

The rental charges payable by CUCL or Unicom Group are based on market rates or the depreciation charges and taxes in respect of each property, provided that such rental charges will not be higher than the market rates. The rental 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.

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Provision of Value-added Telecommunications Services

Unicom Group (or its subsidiaries) agrees to provide the customers of CUCL with various types of value-added telecommunications services.

CUCL will settle the revenue generated from the value-added telecommunications services with the branches of Unicom Group (or its subsidiaries) on the condition that such settlement will be based on the average revenue for independent value-added telecommunications content providers who provide value-added telecommunications content to CUCL in the same region. The revenue will be settled on a monthly basis.

Provision of Equipment Procurement Services

Unicom Group agrees to provide comprehensive procurement services for imported and domestic telecommunications equipment and other domestic non-telecommunications equipment to CUCL. Unicom Group also agrees to provide services on management of tenders, verification of technical specifications, installation, consulting and agency services.

In addition, Unicom Group will sell cable, modem and other materials operated by itself to CUCL and will also provide storage and logistics services in relation to the above equipment and materials procurement.

Charges for the provision of equipment procurement services are calculated at the rate of:

(a) up to 3% of the contract value of those procurement contracts in the case of domestic equipment procurement; and

(b) up to 1% of the contract value of those procurement contracts in the case of imported equipment procurement.

The charges for the provision of materials operated by Unicom Group are determined by reference to the following pricing principles:

(A) the government fixed price;

(B) where there is no government fixed price but a government guidance price exists, the government guidance price;

(C) where there is neither a government fixed price nor a government guidance price, the market price; or

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

The charges for the provision of storage and logistics services are determined by reference to the market price, which is determined by reference to the following:

(I) the price charged by an independent third party providing the services in the same or nearby location in an ordinary business transaction; or

(II) the price charged by an independent third party providing the services in mainland China in an ordinary business transaction.

The service charges due to Unicom Group will be settled on a monthly basis.

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Provision of Engineering Design and Construction Services

Unicom Group agrees to provide engineering design, construction and supervision services and IT services to CUCL. Engineering design services include planning and design, engineering inspection, telecommunications electronic engineering, telecommunications equipment engineering and corporate telecommunications engineering. Construction services include services relating to telecommunications equipment, telecommunications routing, power supplies, telecommunications conduit, and technical support systems. IT services include services relating to office automation, software testing, network upgrading, research and development of new business, and development of support systems.

The charges for the provision of engineering design and construction services are determined by reference to the market price, which is determined by reference to the following:

(a) the price charged by an independent third party providing the services in the same or nearby location in an ordinary business transaction; or

(b) the price charged by an independent third party providing the services in mainland China in an ordinary business transaction.

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

Provision of Ancillary Telecommunications Services

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

The charges payable for the provision of ancillary telecommunications services are determined by reference to the following pricing principles:

(a) the government fixed price;

(b) where there is no government fixed price but a government guidance price exists, the government guidance price;

(c) where there is neither a government fixed price nor a government guidance price, the market price; or

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

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

Provision of Comprehensive Support Services

Unicom Group and CUCL agree to provide comprehensive support services to each other, including dining services, facilities leasing services (excluding those facilities which are provided under the paragraph headed Provision of Telecommunications Resources Leasing above), vehicle services, health and medical services, labour services, security services, hotel and conference services, gardening services, decoration and renovation services, sales services, construction agency, equipment maintenance services, market development, technical support services, research and development services, sanitary services, parking services, staff trainings, storage services, advertising services, marketing, property management services, information and communications technology services (including construction and installation services, system integration services, software development, product sales and agent services, operation and maintenance services, and consultation services).

The service charges are determined by reference to the following pricing principles:

(a) the government fixed price;
(b) where there is no government fixed price but a government guidance price exists, the government guidance price;
(c) where there is neither a government fixed price nor a government guidance price, the market price; or
(d) where none of the above is applicable, the price to be agreed between the parties and determined on a cost-plus basis.

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

Provision of Shared Services

Unicom Group and CUCL agree to provide shared services to each other, including, but not limited to, the following:

(a) CUCL will provide headquarter human resources services to Unicom Group;
(b) Unicom Group and CUCL will provide central business support services to each other;
(c) CUCL will provide trust services related to the services referred to in paragraphs (a) and (b) above to Unicom Group; and
(d) Unicom Group will provide premises to CUCL and other shared services requested by its headquarters.

In relation to the central business support services Unicom Group and CUCL will provide to each other, CUCL will provide support services, such as billing and settlement services provided by the business support centre and operational statistics reports. Unicom Group will provide support services, including telephone card production, development and related services, maintenance and technical support and management services in relation to the telecommunications card operational system.

Unicom Group and CUCL will share the costs related to the shared services proportionately in accordance with their respective total assets value, except that the total assets value of the overseas subsidiaries and the listed company of Unicom Group will be excluded from the total asset value of Unicom Group, and the shared costs proportion will be agreed between Unicom Group and CUCL in accordance with the total assets value set out in the financial statements provided to each other, as adjusted in accordance with their respective total assets value on an annual basis.

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

Certain subsidiaries of China Unicom and Unicom Group entered into a number of framework agreements, all of which expired by the end of 2010. Details of the related party transactions under such agreements are summarized below.

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 revenue 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 revenue 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 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 revenue 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 revenue which other telecommunications operators settle with Unicom Group, and such revenue 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 revenue 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 revenue 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.

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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;

(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.

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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:

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.

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 RMB8.4 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 December 16, 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, on December 16, 2008, CUCL entered into a network lease agreement, or the initial lease, 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 initial lease became effective in January 2009 upon the completion of our acquisitions of the fixed-line business in southern China and was for an initial term of two years effective from January 2009. 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.

On October 29, 2010, CUCL entered into the 2011-2012 Network Lease Agreement, with Unicom New Horizon, which became effective on January 1, 2011. The 2011-2012 Network Lease Agreement is for an initial term of two years effective from January 1, 2011 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. The annual lease fee payable by CUCL under the initial lease for the years ending December 31, 2009 and 2010 was RMB2.0 billion and RMB2.2 billion, respectively, and the annual lease fee payable by CUCL under the 2011-2012 Network Lease Agreement for the years ending December 31, 2011 and 2012 is RMB2.4 billion and RMB2.6 billion, respectively. In connection with the 2011-2012 Network Lease Agreement, 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 2011-2012 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.

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:
  - 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

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.

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Based on the Company s financial position in 2010 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 RMB0.08 per share for the year ended December 31, 2010, compared to RMB0.16 per share for the fiscal year ended December 31, 2009.

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:				
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
2010	12.16	8.31	15.54	10.58
Quarterly:				
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
Second Quarter, 2010	10.76	8.84	13.55	11.09
Third Quarter, 2010	12.16	9.96	15.54	12.55
Fourth Quarter, 2010	11.68	10.32	15.06	13.34
First Quarter, 2011	13.58	11.04	17.49	14.11
Monthly:				
November 2010	11.46	10.32	14.58	13.17
December 2010	11.68	10.44	15.00	13.52
January 2011	13.00	11.04	16.52	14.11
February 2011	13.50	12.40	17.49	15.99
March 2011	13.58	12.34	17.32	15.30
April 2011	16.14	13.40	20.46	17.26
May 2011(through May 25, 2011)	16.64	15.12	21.24	19.50

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.

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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.

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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:

- 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.
- 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.

Network Leasing Agreement, dated October 29, 2010, entered into between CUCL and Unicom New Horizon.

Comprehensive Services Agreement, dated October 20, 2010, entered into between CUCL and Unicom Group.

Agreement to Enhance the Strategic Alliance, dated January 23, 2011, entered into between the Company and Telefónica.

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 off-shore incorporated enterprise are deemed to be PRC-sourced income and subject to PRC enterprise income tax. On November 11, 2010, we were notifed by the SAT that we are determined to be a PRC resident enterprise since January 1, 2008 for PRC tax purposes. Accordingly, we are required to withhold the 10% EIT when we distribute dividends to our non-resident enterprise shareholders.

Accordingly, we will withhold the 10% EIT when we distribute our final dividend for the fiscal year ended December 31, 2010 in respect of the non-resident enterprise shareholders for PRC tax purposes whose names appear on our register of members as of the record date for such dividends, and who are 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 EIT 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.

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Hong Kong

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,

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 ADRs. Exchanges of shares for ADRs, and ADRs 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, 2013 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.

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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 8621. In addition, pursuant to recently enacted legislation, if you are a U.S. person that is a shareholder in a PFIC, you will generally be required to file an annual report with the Internal Revenue Service. The content of this required statement and potential exemptions to this requirement are under development by the Internal Revenue Service.

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.

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 such obligations as of December 31, 2010.

	Expected Maturity							As of December 31, 2010 Fair Value
	2011	**2012**	**2013**	**2014**	**2015**	**Thereafter**	**Total**	
	(RMB equivalent in millions, except interest rates)							
Liabilities:								
RMB-denominated loans								
Fixed rate	2,610						2,610	2,610
Average rate [1]	2.21%							
Variable rate	23,225		800				24,025	24,025
Average rate	2.34%	4.59%	4.59%					
HK dollar-denominated loans								
Variable rate	12,925						12,925	12,925
Average rate	0.37%							
U.S. dollar-denominated loans								
Fixed rate	30	25	25	25	25	325	455	314
Average rate	0.53%	0.47%	0.47%	0.46%	0.46%	0.45%		
Euro-denominated loans								
Fixed rate	28	25	25	25	25	137	265	255
Average rate	2.21%	2.20%	2.18%	2.17%	2.14%	1.56%		
RMB-denominated commercial papers								
Fixed rate	23,000						23,000	23,000
Average rate	2.70%							
RMB-denominated promissory notes								
Fixed rate			15,000				15,000	14,881
Average rate	3.39%	3.39%	3.39%					
RMB-denominated corporate bonds								
Fixed rate			5,000			2,000	7,000	7,205

Average rate	5.06%	5.06%	5.06%	4.50%	4.50%	4.50%		
U.S. dollar-denominated convertible bonds								
Fixed rate					12,178		12,178	11,558
Average rate	1.90%	1.90%	1.90%	1.90%	1.90%			
U.S. dollar-denominated finance lease								
Fixed rate	129	82					211	204
Average rate	2.41%	2.51%						

(1) The average interest rates for variable rate loans are calculated based on the rates reported as of December 31, 2010.

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For the year ended December 31, 2010, 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 RMB27 million (2009: approximately RMB3 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 because we receive some of our revenue 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.

The following table provides information regarding our foreign currency-sensitive financial instruments, 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, 2010 and the expected maturity profile of these debt obligations and capital commitments.

	Expected Maturity							As of December 31, 2010 Fair Value
	2011	2012	2013	2014	2015	Thereafter	Total	
	(RMB equivalent in millions)							
Assets:								
Cash and cash equivalents								
U.S. dollars	11,661						11,661	11,661
HK dollars	393						393	393
Japanese yen	1						1	1
Euro dollars	213						213	213
GBP	8						8	8
Short-term bank deposits								
U.S. dollars	148						148	148
HK dollars	43						43	43
Liabilities:								
U.S. dollar-denominated loans	30	25	25	25	25	325	455	284
Euro-denominated loans	28	25	25	25	25	137	265	227
HK dollars-denominated loans	12,925						12,925	12,925
U.S. dollar-denominated convertible bonds					12,178		12,178	11,558
U.S. dollar-denominated finance lease	129	82					211	204
Off-balance sheet commitments:								

Capital commitments authorized
and contracted for in U.S. dollars

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If the RMB had strengthened/weakened by 10% against the foreign currencies, relative to December 31, 2010, 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 RMB1.29 billion (2009: exchange losses/gains of approximately RMB1.03 billion; 2008: exchange losses/gains of approximately RMB22 million) for foreign currencies-denominated cash and cash equivalents, short-term bank deposits, borrowings, convertible bonds and other obligations under finance lease included in other obligations.

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 changed by 10%, in each case, relative to December 31, 2010, while all other variables are held constant, we would have recorded additional change in fair value of approximately RMB456.53 million, net of tax, in our available-for-sale fair value reserve. As of April 30, 2011, 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 10%, from October 21, 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 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

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ADR holders must pay:	For:
Expenses of the depositary	Conversion of Hong Kong dollars to U.S. dollars
	Cable, telex and facsimile transmission expenses
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, 2010 to December 31, 2010, we received from the Bank of New York Mellon a total of US$251,246, 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$136,316 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, 2010, 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, 2010, 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, 2010 was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2010, 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 was 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 audit services, audit-related services, tax services and other services for each of the fiscal years 2009 and 2010:

	For the Year Ended December 31,	
	2009	**2010**
	(in RMB thousands)	
Audit services	73,200	67,700
Audit-related services	2,200	2,154
Tax services	560	223
Other	472	401
Total	76,432	70,478

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 2009 and 2010 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 2010, audit-related services mainly include the agreed-upon procedures in relation to the issue of convertible bonds and the implementation of Extensible Business Reporting Language (XBRL).

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

Other services include 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.

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.

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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.

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 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.

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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)]
1.3	Amended Articles of Association of Unicom (as amended on May 24, 2011).*
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)]
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)]

Exhibit Number	Description of Exhibit
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]
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]

Exhibit Number	Description of Exhibit
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)
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, dated September 6, 2009. (13)
4.52	Strategic Alliance Agreement between us and Telefónica, dated September 6, 2009.(13)
4.53	Irrevocable Offer by SK Telecom, dated September 25, 2009.(13)
4.54	Irrevocable voting undertaking from China Netcom Group Corporation (BVI) Limited in favor of SK Telecom, dated September 25, 2009.(13)
4.55	Share Repurchase Agreement, dated November 3, 2009.(13)
4.56	Amendment Agreement to Share Repurchase Agreement, dated November 3, 2009.(13)
4.57	2011-2012 Network Lease Agreement between Unicom New Horizon and CUCL, dated October 29, 2010. (English translation)*
4.58	2011-2013 Comprehensive Services Agreement between Unicom Group and CUCL, dated October 29, 2010. (English translation) *

Exhibit Number	Description of Exhibit
4.59	Agreement to Enhance the Strategic Alliance between China Unicom (Hong Kong) Limited and Telefónica, dated January 23, 2011. *
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.

(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.

(13) Incorporated by reference to our Annual Report on Form 20-F (File No. 1-15028) for the year ended December 31, 2009.

* 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: May 26, 2011

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

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF
CHINA UNICOM (HONG KONG) LIMITED

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, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 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, 2010, 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.

As discussed in Note 2.25 (a) to the consolidated financial statements, the Group adopted the accounting policy of relative fair value method when accounting for its preferential promotional service packages retrospectively on January 1, 2010.

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
May 24, 2011

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CHINA UNICOM (HONG KONG) LIMITED
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2009 AND 2010
(All amounts in Renminbi (RMB) millions)

		As of December 31		
	Note	**2009 RMB**	**2010 RMB**	**2010 US$**
ASSETS				
Non-current assets				
Property, plant and equipment	6	351,157	366,060	55,464
Lease prepayments	7	7,729	7,607	1,153
Goodwill	8	2,771	2,771	420
Deferred income tax assets	9	5,202	4,840	733
Available-for-sale financial assets	10	7,977	6,214	942
Other assets	12	11,596	11,753	1,780
		386,432	399,245	60,492
Current assets				
Inventories and consumables	13	2,412	3,728	565
Accounts receivable, net	14	8,825	9,286	1,407
Prepayments and other current assets	15	4,252	5,115	775
Amounts due from related parties	40.1	53	50	8
Amounts due from domestic carriers	40.2	1,134	1,261	191
Proceeds receivable for disposal of the CDMA business	36, 40.2	5,121		
Short-term bank deposits	16	996	273	41
Cash and cash equivalents	17	7,820	22,495	3,408
		30,613	42,208	6,395
Total assets		417,045	441,453	66,887
EQUITY				
Equity attributable to owners of the parent				
Share capital	18	2,310	2,310	350
Share premium	18	173,435	173,436	26,278
Reserves	19	(18,088)	(18,273)	(2,769)
Retained profits				
- Proposed final dividend	37	3,770	1,885	286
- Others		45,038	46,483	7,043

	206,465	205,841	31,188
Non-controlling interests	2		
Total equity	206,467	205,841	31,188

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, 2009 AND 2010
(All amounts in RMB millions)

		As of December 31		
	Note	2009	2010	2010
		RMB	RMB &n	